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OVERSIGHT OF FEDERAL PROCUREMENT DECISIONS ON WEDTECH

HEARINGS

BEFORE THE

SUBCOMMITTEE ON
OVERSIGHT OF GOVERNMENT MANAGEMENT

OF THE

COMMITTEE ON
GOVERNMENTAL AFFAIRS
UNITED STATES SENATE

ONE HUNDREDTH CONGRESS

FIRST SESSION

Part 2

ROLE OF THE NAVY

SEPTEMBER 29, 30, 1987

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OVERSIGHT OF FEDERAL PROCUREMENT DECISIONS ON WEDTECH

TUESDAY, SEPTEMBER 29, 1987

U.S. Senate,
Committee on Governmental Affairs,
Subcommittee on Oversight of
Government Management,
Washington, DC.

The Subcommittee met, pursuant to notice, at 9:45 a.m., in room SD-342, Dirksen Senate Office Building, Honorable Carl Levin (Chairman of the Subcommittee) presiding.

Present: Senators Levin and Cohen.

Staff present: Linda J. Gustitus, Staff Director and Chief Counsel; Peter K. Levine, Counsel; Jack Mitchell, Investigator; Mary Berry Gerwin, Minority Staff Director and Chief Counsel for the Minority; Frankie de Vergie, Chief Clerk; and Richard Allen, Professional Staff Member.

OPENING STATEMENT OF SENATOR LEVIN

Senator Levin. Good morning, everybody. The hearings will be in order.

We now resume our hearings on Federal procurement decisions relative to the Wedtech Corporation.

In our first two days of hearings earlier this month, we examined the way the Small Business Administration bent, distorted and violated its own rules in order to assist Wedtech in getting the 8(a) Army engine contract and to extend Wedtech's eligibility in the 8(a) program after its program term had expired and after it was no longer owned by a disadvantaged individual.

Now, let us just recount for a moment what we know so far about the SBA's actions.

SBA provided a $3 million Business Development Expense grant to Wedtech for the Army engine contract solely because of interest expressed by the White House, before the paperwork requesting such funds was even received from Wedtech, and although SBA officials had real doubts that such funds would be used for the appropriate purpose.

SBA extended Wedtech's 8(a) program term despite the fact that Wedtech went public without notifying SBA as required by regulation and despite the fact that John Mariotta, the allegedly "disadvantaged" owner, no longer owned 51 percent of the company as required and was worth well over $1 million.

SBA accepted a sham stock transaction as restoring ownership and control to Mariotta despite the fact that no payment for the stock was due from Mariotta for two years; Mariotta did not obtain possession of the shares; Mariotta could not sell the shares he was supposed to "own"; and the failure of Mariotta to pay for the shares would result in no penalty. The price of the shares, if Mariotta ever paid for them, would be the current market value at the time the shares were paid for—not their value at the time of the so-called sale; Mariotta did not appear to have anywhere near the amount of funds needed to buy the shares according to the terms of the agreement, and if he did. he would clearly not have been economically disadvantaged; and review of the complicated stock agreement by SBA officials took 24 hours by the District Counsel, although the District Counsel testified that he had never seen anything like it before. The District Counsel was told by the Regional Director, Peter Neglia, that action on the stock agreement was needed immediately because a contract was being awarded in Washington shortly. The District Director recommended approval of the stock agreement before the District Counsel rendered his opinion. The Regional Counsel, who was suspicious of the stock transaction, was bypassed in commenting on that stock agreement.

Now, SBA also granted a final extension of Wedtech's 8(a) program term for an unusual length of time—three years—without any stated conditions, despite the fact that SBA was very concerned about Wedtech's 8(a) dependence—95 percent of its contracts were 8(a)—and despite the fact that 8(a) dependence is, by SBA regulation, supposed to be a reason for not extending the program term.

On top of all that, in 1984 SBA made Wedtech its sole candidate for the Navy pontoon contract, the largest contract in 8(a) history. In fact, SBA extended Wedtech's 8(a) program term on the very same day it named Wedtech as its candidate for the pontoon contract—strong evidence that SBA's highly questionable and irregular eligibility and program extension decisions were driven by SBA's desire to give Wedtech the pontoon contract.

This record of misperformance by the SBA is simply astounding. But it becomes somewhat understandable when viewed in the context of the money that Wedtech was paying for political influence to numerous well-connected lobbyists and consultants.

We heard testimony about the payment of millions of dollars in fees and stock from Wedtech to politically-connected consultants including former White House aides Lyn Nofziger and Jim Jenkins; Mr. Nofziger's lobbying partner, Mark Bragg; close friend and advisor to Edwin Meese, Bob Wallach; law partner to Congressman Mario Biaggi and his son, Bernard Ehrlich, and others.

And we heard testimony from SBA officials, including the former Administrator and Deputy Administrator, who acknowledged that they provided substantial assistance to Wedtech because they believed that was what the White House wanted.

We now turn to the fruit of all these efforts—a $134 million Navy contract for the construction of pontoon causeways, the largest contract ever awarded under the SBA's 8(a) program. This contract was chosen as an 8(a) set-aside contract and awarded to Wedtech on a sole-source basis, despite the knowledge of the Navy and the SBA that:

One, the pontoon contract was a key element of an important defense system—the pre-positioned ships used to support our rapid-deployment forces in case of military emergency—and that the Navy's multi-billion-dollar investment in that system would be considerably less effective without timely performance of the pontoon contract.

Two, Wedtech had no existing facility to build pontoons and had never built anything like a pontoon, and was not even qualified for shipbuilding, while dozens of existing shipbuilding facilities around the country were idle because of lack of work.

Three, Wedtech could not possibly meet the Navy's schedule and could not build the pontoons for the fair market price that the company accepted.

Four, Wedtech had already received a huge Army engine contract under the same sole-source program, was already substantially behind schedule on that contract, and had not yet produced a single acceptable engine.

Five, Wedtech was already dangerously dependent on sole-source 8(a) contracts—a dependency which is again, according to SBA regulations, a basis for not extending a company's 8(a) program term, and its eligibility to participate in this program was based on a transparently sham stock transaction.

The Navy initially opposed the use of the 8(a) program to build the pontoons, but top civilians suddenly reversed ground without any written memorandum or other record of the rationale for the decision.

The SBA initially intended to utilize multiple contractors for the project, but suddenly reversed ground and decided to give the entire contract to Wedtech without any written memorandum of the rationale for that decision. The contract was given to Wedtech so hastily that no pre-award survey was ever performed, and the contract was awarded before an audit of Wedtech's proposal could be completed and assessed. Both omissions are unusual.

Not surprisingly, Wedtech was over-budget and behind schedule on the contract almost from the day it got the contract. The first pontoons built by Wedtech did not even have right-angle corners. For more than two years, the Navy kept Wedtech in business by paying the company the full amount of progress payments permitted by law, yet the company ran out of money before completing the project.

Despite these problems, and the fact that Wedtech had missed its delivery deadline on the initial contract by at least six months, in 1985 and 1986, the Navy awarded Wedtech more than $100 million in options on this contract.

After two years and almost $20 million in losses, Wedtech went bankrupt without completing the pontoons that it had been paid for, and the American taxpayer was left holding the bag.

As distressing as are the losses to the taxpayer, even more distressing are the consequences of Wedtech's foreseeable failure on our national defense. For two years, in 1985 and 1986, we had supply ships at sea that could not be unloaded in an emergency because of Wedtech's failure to deliver pontoon causeways on schedule. In some areas of the world, we still have pre-positioned ships that are not equipped with pontoon causeways. This means that if there is a crisis in these areas of the world, we may be able to deploy troops, but we will not be able to rapidly equip them. We could have soldiers in the field without tanks, without guns, without ammunition, without food, all because the SBA and the Navy decided to give the contract and the options to Wedtech.

How could these officials have ignored all the warning signs—Wedtech's poor performance on the Army engine contract, its lack of existing facilities, the internal Navy report saying it could not perform on time and on budget, Wedtech's financial problems, its abysmal performance on the first units?

Those involved with Wedtech themselves provide us with one answer. They believe that they got this contract because of political connections and payments—not because of what they did, but because of who they knew and what they paid.

Wedtech hired the best-connected lobbyists it could find, paid them hundreds of thousands of dollars, and gave them stock in the company. These so-called "consultants" then pulled political strings to get contracts for Wedtech on a sole-source basis.

The Subcommittee has learned that Wedtech mounted an all-out campaign to get the pontoon contract, utilizing "friendly" Government officials and well-connected consultants such as Lyn Nofziger, Mark Bragg, Bob Wallach, Jim Jenkins, and Bernard Ehrlich to contact the key Government decisionmakers on their behalf.

For example, the Subcommittee has obtained copies of a series of memoranda written by Bob Wallach about the pontoon contract. In previous hearings, we have seen that it was Mr. Wallach who interested Attorney General Ed Meese in Wedtech's efforts to obtain the $31 million Army engine contract under the 8(a) program with a series of memos sent by Mr. Wallach to Mr. Meese's home as well as to his office. We have been told that Mr. Meese directed his staff to ensure that Wedtech got a fair hearing, and we have heard the testimony of agency officials that but for an extraordinary White House meeting held by Mr. Meese's deputy, Mr. Jenkins, Wedtech would not have gotten the Army engine contract.

In the set of memoranda we are making available today, we see for the first time Mr. Wallach's intense interest and involvement in Wedtech's effort to obtain the pontoon contract. We see Mr. Wallach's role in structuring Wedtech's phoney stock "sale" so-called, to John Mariotta for the express purpose of obtaining the pontoon contract on a sole-source basis under the 8(a) program.

We see Mr. Wallach's apparent belief in the "power" of what he refers to as Wedtech's "ally structure" to affect not only the outcome of substantive, internal agency procurement decisions, but the personnel changes within the agencies involved in those decisions as well.

In a memo dated November 12, 1984 to Wedtech officers, Mr. Wallach writes that the program manager, David de Vicq, "should be aware of Wedtech's general ally structure. He doesn't have to know it in detail. The fact that we have it, and his awareness of it, ought to be gently indicated."

In a memo dated February 21, 1984 to the file, Mr. Wallach writes, "If there is an opening in the top slot in the 8(a) position at

SBA, Saldivar is the man. Transfer of the causeway contract to him would facilitate and guarantee its efficient undertaking without bias."

In one memo dated December 10, 1984, from Mr. Wallach to Wedtech officers, Mr. Wallach sums up his attitude toward Wedtech's ability to exert political influence to get what it wants. In that memo Mr. Wallach writes, "The more power we have, and the more we are confident of our resources, the less we should have to say about them. The subject is not our ability to do it, but actually doing it, without any expression of it being done."

The Subcommittee has also spoken to Mario Moreno, the former Executive Vice President of Wedtech. Mr. Moreno, who has pled guilty to at least one offense now in New York, has informed the Subcommittee that when the company ran into problems getting the 1985 pontoon options, Wedtech officials met with Mark Bragg. Bragg allegedly told Moreno that he wanted compensation for his effort to help Wedtech get the options. After some negotiations, according to Moreno, Wedtech agreed to pay Mr. Bragg $400,000 if the options were awarded without price negotiation and $200,000 if they were awarded with price negotiation. Moreno told Subcommittee staff that Wedtech promised to make these payments and that shortly after that meeting, Bob Wallach learned of the promise to Bragg and extracted a similar promise for himself: $150,000 if Wedtech got the options.

Today and tomorrow, we will hear from several officials who will provide their own answers to the question why Wedtech got the Navy pontoon contract and the options.

On the one hand, we will hear from officials and former officials who deny that political influence had anything whatever to do with their decisions. On the other hand, we will hear from officials who did try to stand up and say "no" to Wedtech and whose professional advice was ignored and whose careers may have been negatively affected.

Regardless of the reasons given for the award to Wedtech, or their assessment of the efficacy of Wedtech's campaign for the contract, there can be no doubt of one thing: Wedtech paid extravagant sums of money and stock to politically well-connected consultants to get them contracts, and in the case of the Navy pontoon contract, a contract Wedtech clearly did not deserve.

In all probability, it will be several years before the many individuals implicated in this case have been tried and the books have been closed on Wedtech. But Congress cannot afford to wait. We must candidly assess the structure of the 8(a) program to see where we can change those aspects of the program that invite the abuses we have found with Wedtech, and we must take a fresh look at the ethics laws that govern the conduct of our high officials, former high officials, and Executive Branch lobbyists, to see if there are loopholes that need closing or provisions that need strengthening to avoid this kind of conduct on other contracts.

We must learn the lessons of Wedtech and do whatever we can to prevent other Wedtechs.

[Senator Cohen's opening statement follows:]

OPENING STATEMENT OF SENATOR COHEN

Today the Subcommittee will continue to unravel the plot of how Wedtech and its consultants were able to manipulate the Small Business Administration's 8(a) minority set-aside program to obtain millions of dollars in defense contracts.

I am greatly disturbed by the picture of the 8(a) program that was revealed at our last hearing. All the way up the line, officials in the SBA failed to question whether Wedtech should remain in the 8(a) program and ignored clear signals that the company was no longer eligible for additional 8(a) funds or participation. By accepting sham stock transactions, ignoring Wedtech's failure to notify the SBA that is was going public, and granting unusually long extensions of Wedtech's program term and unusually large grants to Wedtech, the SBA turned the purpose of the 8(a) program on its head. Instead of helping truly disadvantaged companies get started, the mission of the SBA became to keep a clearly ineligible company dependent on the 8(a) program for its economic survival. In short, the 8(a) program, at least in this case, turned into an economic welfare cycle for companies that want to survive solely on government contacts.

The tragedy of this case is that there are so many who are losers because officials at the SBA—and officials at the Navy and Army—either did not question deeply enough, or even worse, looked the other way, when Wedtech's consultants manipulated the program. Not only were the workers in the South Bronx losers, but the American taxpayers, and, perhaps most tragically, the men and women of the military were losers. These dedicated persons who serve on our front lines are entitled to quality products that they need to carry out their missions. In the case of Wedtech, our military received far less than they deserved.

At least one of our witnesses will testify today that the story of Wedtech is a "people problem" and not a problem of how the 8(a) program is structured. I disagree. While there were, unquestionably, officials who did not follow established procedures, there were severe deficiencies in the underlying program that allowed these manipulations to occur. We will never, in my opinion, be able to prevent all influence peddling and undue political pressure from affecting agency decisions. We can, however, take some steps to reform the underlying programs and infuse more competition and safeguards against abuse into the 8(a) process.

As I mentioned at our last hearings, our purpose here is not to establish criminal culpability. Those determinations will be made by the many criminal and administrative investigations that are now on-going. I do believe, however, that the Congress has a responsibility to ensure that the 8(a) program is tight enough to ensure that the events of Wedtech are not repeated.

Today we turn to the decisions of the Navy and the Small Business Administration to award Wedtech a contract to build pontoons that were to be a key facet of the Navy's Rapid Deployment Forces. I have concerns over how many of the decisions were made, both by the Navy and the SBA, in awarding this contract, and believe that, once again, too many rules were broken and signals ignored by agency personnel.

Senator Levin and I have worked together on this Subcommittee, as well as on the Armed Services Committee, to bring more competition to government contracting to try to make it a more honest process. The natural result of competition is to improve the products and serives that the government buys. Without competition, we are inviting the kind of abuse that Wedtech exemplifies. I hope that these hearings will provide answers on how to reform the 8(a) program so that we can, while continuing to assist minorities and the disadvantaged, obtain the benefits of competition in government contracting.

Senator LEVIN. At this time, there are a number of documents that we will be referring to during these two days of hearings. We have compiled them in two packets—the Navy documents and the documents obtained from Bob Wallach.

We will put these in the record.

At this time, I would ask our witnesses if they would stand and raise their right hands.

Do you swear that the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you, God?

Captain DE VICQ. I do.

Colonel HEIN. I do.

Senator Levin. Prior to calling upon our two witnesses for their testimony let me make a brief additional statement.

At these hearings, the names of Lyn Nofziger and Mark Bragg will be mentioned as lobbyists on behalf of Wedtech for the Navy pontoon contract. Both Mr. Nofziger and Mr. Bragg are under indictment and awaiting trial, scheduled for November, on matters involving their representation of Wedtech. Because of the possible proximity of the trials to this hearing, I want to make it clear for the record that the contract under discussion today and tomorrow is not a subject of the indictment.

The indictment of Messrs. Bragg and Nofziger goes to their alleged conduct relative to, among others, an Army engine contract obtained by Wedtech. It does not pertain to the actions by Bragg and Nofziger on the Navy pontoon contract.

The Subcommittee had originally intended to take up the two Wedtech contracts, the Army engine contract, and the Navy pontoon contract in chronological order, with the Army contract first. But at the request of the Independent Counsel, James McKay, we agreed to schedule the hearings on the Army contract last. Mr. McKay did not express any specific concern to us about scheduling these hearings today and tomorrow.

We had therefore scheduled hearings on the Army engine contract for next week; but now we understand that the trials in the Nofziger and Bragg matters are scheduled for early November.

The Subcommittee also has an unmet request for access to relevant White House documents which we believe are important to the Army engine contract matter.

We will postpone next week's hearings to a later time, therefore, at least until the end of November, at which time we will assess the status of the trial, and we will know more about the outcome of our longstanding request for White House documents.

Captain de Vicq, I think we will ask you to proceed with your statement. Your statement will be made a part of the record, and you can either give it or summarize, as you wish.

TESTIMOMY OF CAPT. DAVID C. de VICQ, U.S. NAVY (RET.), FORMER PROGRAM MANAGER, NAVY PONTOON CAUSEWAY PROJECT;[1] AND COL. DON H. HEIN, FORMER COMMANDER, DCASMA, NEW YORK REGION [2]

Captain de Vicq. Thank you, Mr. Chairman.

I am Captain David C. de Vicq, Civil Engineer Corps, United States Navy, Retired. I served as a Sealift Support Facilities Acquisition Manager at NAVFAC from September of 1983 until February of 1986.

When I assumed program management duties, the pontoon procurement contract documents were in final preparation for unrestricted competitive bidding. That procedure was selected because of the size, complexity, ILS requirements and urgency of the program primarily to support three squadrons of maritime pre-positioning ships then under construction.

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[1] See p. 169 for Captain de Vicq's prepared statement.

[1] See p. 175 for Colonel Hein's prepared statement.

In the fall of 1983, discussions with the ASN staff led to a Small Business set-aside of a portion of the nonpowered equipment. It covered items of lesser urgency, included work previously done well by Small Business, and was acceptable, although we felt some additional costs would accrue from two contracts and two start-ups.

In mid-January, the subject was reopened by the ASN S&L, who then seemed inclined to set the entire program aside for Section 8(a) award. With a number of senior officers present and supporting our position, we argued against additional set-aside, but were apparently unconvincing. The outcome was full set-aside.

Within a week, we had hand-delivered the necessary paperwork to SBA. The following week, SBA named two nominees, and we conducted an extensive briefing for them on both the hardware and ILS requirements of the program.

In early February, we assembled a broadly-experienced team to visit both nominees to determine apparent capability and to select one for the first negotiation effort. DCAS and SBA representatives accompanied us. Although both nominees had definite weaknesses, Wedtech scored better than Medley, and we notified SBA to request their proposal. It was received in late February.

Lack of certain details in the proposal and changes in proposed subcontractors occasioned some delays and restarts in necessary audits, but sufficient understanding was gained to start negotiations in early March. They were concluded in about 30 days of hard work.

We had to obtain additional funding from OPNAV to meet the price finally agreed upon.

Throughout negotiations, Wedtech maintained that they could meet required delivery dates and stated that they were taking actions in advance of the contract signing to assure success.

We in turn had obtained authority to provide the longer-lead-time engines and pumps as Government-furnished equipment for the first several powered units.

Wedtech's corporate performance in New York could be characterized as energetic but inefficient, exuberant but often unskilled, full of optimistic oral plans, promises, and bright tomorrows, but short on accomplishment and follow-through—lots of try, but elusive success.

From the start and throughout my tenure, Wedtech production, planning, monitoring and reassessment were inadequate. Quality control was poorly-documented and not vigorously followed up, when deficiencies requiring systematic correction were noted. Housekeeping and safety practices were lamentable. Production delays and rework were a continuous problem. Wedtech's poor payment record with its subcontractors impacted on material purchases, specialty labor, and plant habitability—all with resultant delays in production.

Some vendors and subs placed future business with Wedtech on a prepayment basis.

Despite substantial start-up delays, primarily due to the problems I have just mentioned, the hardware offered for final inspection and test was accepted without reduction in inspection standards and with relatively few exceptions for post-delivery correction.

I came to the view that good hardware could result, and that substantial corporate progress had been made under the basic contract.

I should have preferred having no further options with Wedtech, but as funding availability for the first option approached, Wedtech, although they remained behind on delivery schedule, had a large portion of the primary contract scope as work in progress, and significant plant improvements were underway.

ILS software was also behind schedule, although a portion had been submitted for comment and appeared correctable. Both SBA and the contractor advised us that Wedtech was financial viable.

After considering the additional start-up delays of any new contractor, plus the probable slowdown, if not partial default, which a switch might precipitate at Wedtech, I concluded that it was virtually our only option and in the best interest of the Government to attempt to negotiate a first-year option with Wedtech.

I resisted a request to issue a letter contract on the reasoning that subsequent price and delivery negotiations would be protracted and that cost would be essentially an uncontrolled reimbursable for many months.

Negotiations were authorized and, though tedious to conduct, successfully concluded. During the last year of my tenure, Wedtech's performance on the option was somewhat improved, but delivery delays and financial concerns persisted. It became apparent that program stability required a strong effort to establish a second source.

In the last six months or so, we worked closely with the Small Business advocate to develop a scope-split formula acceptable to the ASN staff, and to identify another candidate 8(a) contractor.

I concluded my tour before final program funding had been resolved, and hence before final scope and source determinations could be developed.

At no time during my tour did I receive direct political pressure to alter any of my recommendations or initiatives. The pressures I felt were very understandable—a push from the Fleet to get a good product on time, and an equally understandable pressure from the Secretariat to produce an 8(a) success.

That concludes my remarks, Mr. Chairman. I would be pleased to answer any questions you have.

Senator LEVIN. Thank you, Captain.

Colonel, I think we will call on you now and then ask questions of both of you at one time. So you may proceed.

Colonel HEIN. Mr. Chairman, I was Commander of the Defense Contract Administration Services Management Area, DCASMA, of New York from July 1984 to June 1986. I was responsible for the field administration of the Wedtech contracts.

The Navy's Rhode Island office had given us a delegation to manage the pontoon contract. Naturally, we had delegations from other Government agencies to handle their contracts, which totalled approximately 8,000.

To set the stage and give you an appreciation of the situation under which we worked, I need to tell you what else was going on.

DCASMA New York had the three worst contracts in all of DLA—actually, two bad contractors and some dishonest Government employees in the Clothing and Textile Directorate of the Defense Personnel Support Center, DPSC, in Philadelphia.

We were receiving considerable pressure from various Government offices because of this. Unfortunately, the senior civilian Government employee at DPSC, who has now pleaded guilty to criminal charges, had the ear of the senior officers in DLA. The misinformation he gave these senior officers caused us endless trouble and caused them to have less confidence in our actions.

We were receiving considerable pressure to give the third contractor a follow-on contract, even though the original contract was delinquent and, in fact, not even delivered. Actually, we were made to negotiate changes to the contract so the company could finally produce a product and to give the money back we had taken for not conforming to the contract.

As you can see, these contracts were micro-managed by DLA headquarters. We were not free to make our own decisions. There obviously was considerable political interest in these contracts.

As the old saying goes, we were being pulled through the "knothole" because of problems associated with these three contractors. My people were put under unnecessary stress and not always treated very well.

This quick overview should give you an idea of the turmoil of the period and an idea of why we did not always get the support from the people who could have helped us.

Mr. Chairman, I request that my previously submitted written statement be added to the record as well.

Thank you, sir.

Senator LEVIN. Thank you, Colonel.

First, Captain de Vicq, you were the overall front-line boss on the pontoon contract, the so-called "program manager," and you worked for the Navy; is that correct?

Captain DE VICQ. That is correct, sir.

Senator LEVIN. Colonel Hein, you were in charge of the administration of the contract, and you worked for the Defense Contract Administration Services, DCAS; is that correct?

Colonel HEIN. That is correct, sir.

Senator LEVIN. Okay. Captain de Vicq, during the fall of 1983, what type of contract bidding were you and your subordinates at the Navy preparing for on the pontoon causeway contract?

Captain DE VICQ. Unrestricted competitive.

Senator LEVIN. Unrestricted competitive bidding?

Captain DE VICQ. Yes, right.

Senator LEVIN. That means anybody could compete for it?

Captain DE VICQ. Yes—large, small, whatever.

Senator LEVIN. And how did you first learn that the pontoon contract might not be awarded on an unrestricted competitive basis?

Captain DE VICQ. Well, it began eroding, as I indicated, with a request to set aside a portion of it.

Senator LEVIN. Did the Assistant Secretary's Office ask you to determine what portions of the contract might be set aside for the 8(a) program?

Captain DE VICQ. They did.

Senator LEVIN. And didn't you and your staff initially object to that request because of the special nature of the contract?

Captain DE VICQ. Strongly.

Senator LEVIN. And what were your objections?

Captain DE VICQ. The unusual size of the contract; the ILS requirements of the contract; the urgency of deliveries.

Senator LEVIN. And what does "ILS" mean?

Captain DE VICQ. Integrated logistic system.

Senator LEVIN. What does that mean?

Captain DE VICQ. It means that you have to produce in addition to the hardware a very large and extensive variety of documentation, both as to the sourcing of all of the hardware—you have to do studies on its reliability; you have to recommend improvements for cost or for quality, and thoroughly document all procedures. You wind up providing maintenance handbooks, spare parts lists—a full panoply of paper that is necessary to accompany any weapons system.

Senator LEVIN. So is it fair to say that your strong objection was based on the size of the contract, the complexity of it including the requirement for extensive documentation; and would it also be fair to add, the urgency of the time——

Captain DE VICQ. Absolutely. The ships of the MPS were one of the great successes of OPNAV as far as I could see. They all came on time.

Senator LEVIN. The pre-positioned ships came on time?.

Captain DE VICQ. Yes, sir, they came on time. It was a remarkable achievement by the guys that buy those ships.

Senator LEVIN. And you wanted the pontoons to come on time?

Captain DE VICQ. I sure did.

Senator LEVIN. And you had doubts that they could, with this kind of a contract?

Captain DE VICQ. I doubted that they could with any small businessmen.

Senator LEVIN. All right. Now, did you recommend, then, as your statement indicates, that the pontoon procurement continue as an unrestricted competitive bid?

Captain DE VICQ. Yes, sir.

Senator LEVIN. And following the direction to you from the Assistant Secretary, you subsequently designated a part of the contract, as I understood it, that could be set aside—the so-called "nonpowered" sections of the pontoon causeways?

Captain DE VICQ. That is correct. Those units had been being produced since World War II, and we had bought them many times from a great variety of businessmen, including many small businessmen who successfully produced them. So, while——

Senator LEVIN. Would you tell us what the "nonpowered" units mean?

Captain DE VICQ. Well, it is simply an assemblage of pontoons that float as a barge. It has no way of propelling itself whatsoever.

Senator LEVIN. No engine in there?

Captain DE VICQ. No engine at all.

Senator LEVIN. All right. And you then set aside that portion of this whole contract at the direction of the Secretary's office?

Captain DE VICQ. We did not set aside all nonpowered, but a significant portion of them.

Senator LEVIN. A portion. And what part of the overall contract was that—a relatively small amount of the overall contract?

Captain DE VICQ. I do not recall the amount, Senator.

Senator LEVIN. All right. And was there then an initial decision in accordance with your recommendation to set aside just a portion of the nonpowered units?

Captain DE VICQ. I think that is reflected on your key dates.

Senator LEVIN. And is that your recollection?

Captain DE VICQ. Yes.

Senator LEVIN. Now, after this request, didn't you continue to plan for the procurement as an unrestricted competitive bid for the powered portion of the contract?

Captain DE VICQ. Absolutely. The remainder of it, the super-critical part.

Senator LEVIN. And as a matter of fact, were you not prepared to submit a formal notice for the competitive bid to the Commerce Business Daily?

Captain DE VICQ. Indeed we were.

Senator LEVIN. And what date were you prepared to file that notice?

Captain DE VICQ. I cannot give you the date because I do not recall it, but it was about three days different from when we were called back to the Secretariat to discuss small business again.

Senator LEVIN. Let me see if I can get the chronology. As I understand it from our staff interviews with you, you were prepared basically to publish that notice of the competitive bid——

Captain DE VICQ. That is right.

Senator LEVIN [continuing]. But three days prior to that, you were told to hold off?

Captain DE VICQ. Correct, and invited to come back and discuss set-aside.

Senator LEVIN. All right. Now, as I understand it, you attended a January 19, 1984 meeting in the office of Assistant Secretary Pyatt to discuss this procurement.[1]

Captain DE VICQ. That is correct.

Senator LEVIN. And what was the purpose of that meeting?

Captain DE VICQ. Well, apparently, we were being asked again to justify using a competitive bid—or, to put it the way it really was put, to prove we could not use a set-aside.

Senator LEVIN. For the motorized portion?

Captain DE VICQ. Correct.

Senator LEVIN. And who was at that meeting?

Captain DE VICQ. I recall Mr. Pyatt chaired it; Admiral Roden and Admiral Hughes, Rear Admiral Jones, other members of the NAVFAC staff, and several members of Mr. Pyatt's staff whose names I do not recall.

Senator LEVIN. Was that the meeting that took place just two or three days prior to your planned publication?

Captain DE VICQ. Yes, sir.

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[1] See p. 225.

Senator LEVIN. Now, prior to that meeting, were you aware that Secretary Pyatt had already signed a letter authorizing this contract to be totally set aside for 8(a)?

Captain DE VICQ. No. That, I found out later, and was quite surprised.

Senator LEVIN. You were what?

Captain DE VICQ. I was quite surprised.

Senator LEVIN. That letter will now be made part of the record.[1]

Now, at that meeting, did you outline your reservations about going 8(a) for the entire contract?

Captain DE VICQ. Yes, sir, as strongly as I could, and I will not try to go through them all; they are the items that we have mentioned.

Senator LEVIN. And did other senior Navy officers present at the meeting register their objections to a total 8(a) set-aside——

Captain DE VICQ. They did indeed——

Senator LEVIN [continuing]. Just let me finish the question, because our reporter is going to have to try to get this down. Did other senior Navy officers present at the meeting register their objections to going 8(a) because they believed that essential deliveries would be unacceptably delayed?

Captain DE VICQ. That is correct.

Senator LEVIN. And was a final decision on the 8(a) set-aside reached at that meeting?

Captain DE VICQ. Not in my presence.

Senator LEVIN. All right. And you said in your prepared statement that you left that meeting with great foreboding.

Captain DE VICQ. That is correct.

Senator LEVIN. Why?

Captain DE VICQ. Well, as strongly as we presented the case, it did not seem to have any effect.

Senator LEVIN. Did other ranking officers present share your sense of foreboding?

Captain DE VICQ. Well, I do not know that all of them would use the word "foreboding," but I can tell you that none of them left happy or enthusiastic.

Senator LEVIN. Now, after that meeting of January 19th, when did you learn that the decision had been made to set aside the entire pontoon contract for 8(a)?

Captain DE VICQ. Oh, within a day or so, because we were asked to prepare the necessary paperwork.

Senator LEVIN. So that within a couple days after the January 19th meeting, you were told it is all going to be set aside; prepare the paperwork?

Captain DE VICQ. That is correct.

Senator LEVIN. And when you learned of the total set-aside, did you know which company or companies the SBA would select to produce the pontoon?

Captain DE VICQ. No, sir.

Senator LEVIN. When did you learn which company or companies the SBA intended to select for the contract?

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[1] See p. 214.

Captain DE VICQ. In the course of the next week to ten days. I do not think it was clear until we went over to brief them.

Senator LEVIN. Let me now just read a portion from the letter that I have put into the record, which is dated January 6th, which is 13 days before this meeting. It is a letter addressed to the Administrator of the Small Business Administration, Mr. Sanders, from Mr. Pyatt, and it says that, "I am pleased to advise that the Department is willing to entertain the placement of the entire current year program for contracting with your agency," referring specifically to the pontoon causeway contract.

When did you first learn, by the way, about this decision of Mr. Pyatt that was reflected in this January 6th letter to entertain the entire contract as a set-aside? When did you first learn that that had been done two weeks prior to the meeting at which you were presumably arguing the pros and cons of doing so?

Captain DE VICQ. Well, I think that letter, or that decision, I actually learned of after the meeting.

Senator LEVIN. Yes, but was it weeks, months, years after the meeting?

Captain DE VICQ. Oh, no, no; fairly shortly after the meeting.

Senator LEVIN. Shortly after the meeting, you found out that two weeks before the meeting, that letter was written, and it was at that point that you say you were surprised?

Captain DE VICQ. Well, yes. I was very surprised then. But I was also surprised during the meeting that there was not more response to the arguments that we were putting forth.

Senator LEVIN. But when you testified a few moments ago that you were surprised when you found out about the decision having been made two weeks before the meeting, that surprise of yours came when you found out about the letter, which was a couple weeks after the meeting of January 19?

Captain DE VICQ. Well, it took a little doing to get a copy of the letter, and it took a while to get it.

Senator LEVIN. Tell us about that. Did you——

Captain DE VICQ. Well, I have not looked at it in a very long time. Is it in this stack, Mr. Chairman?

[Staff handing letter to Captain de Vicq.]

Senator LEVIN. You said it took a little doing to get a copy of it. If you would, just tell us what efforts you made to get a copy of that letter—if you remember.

Captain DE VICQ. Well, it was mostly phone inquiry, asking around to try and get one. But if you notice, it does not happen to display "copy to" anybody, and I do not think that was an omission. I do not know where copies went, but a copy was not aimed at us.

When I heard of the decision, I called our liaison people in the ASN office, and they dug around and dug it up.

Senator LEVIN. Was it unusual that copies would not be coming to you or to some other portions of the procurement system of that kind of a decision?

Captain DE VICQ. Well, I do not think that the Secretariat would necessarily reach all the way down to my level, but it had not come to me through the normal chain of command, either.

Senator LEVIN. You say it had not come to you that way?

Captain DE VICQ. No; it had not arrived—ultimately, I got other copies of this letter through the chain of command, but I do not think they had received it at the time of that meeting, either.

Senator LEVIN. So you had to request a copy of that letter?

Captain DE VICQ. That is correct.

Senator LEVIN. After this meeting, you led a team on an on-site visit, as I understand it, of Wedtech facilities; is that correct?

Captain DE VICQ. That is correct, sir.

Senator LEVIN. And the officials of Wedtech took your team to what you have described to the Subcommittee as a "roofless, powerless, sewerless abandoned plant."

Captain DE VICQ. "Abandoned" might not be an accurate word, but all the rest of it certainly is. Apparently——

Senator LEVIN. Was it empty?

Captain DE VICQ. I have heard it was a bottler that put the plant up, but the intention——

Senator LEVIN. Was it an empty plant?

Captain DE VICQ. Sir?

Senator LEVIN. Was it empty?

Captain DE VICQ. Well, yes, absolutely.

Senator LEVIN. So it was a roofless, powerless, sewerless, empty plant?

Captain DE VICQ. Correct.

Senator LEVIN. Okay. Now, you described your first visit to that facility as "frightening."

Captain DE VICQ. Correct.

Senator LEVIN. And why was it frightening?

Captain DE VICQ. Well, to meet the schedule, an awful lot had to happen to that structure, rapidly. It was not impossible for that to happen. I have been involved in construction throughout my adult life, and I know that if you get a good contractor and you turn to, that indeed they could set that place straight. So it was not impossible, certainly not demonstrably impossible, but it was sure starting a long climb at the very bottom of the hill.

Senator LEVIN. And hadn't the Navy decided that any company lacking a proper facility would not be permitted to bid on this contract?

Captain DE VICQ. Often when you enter a contract, the contractor will have a number of facilities that are convertible or partially usable, although they are not at that time set up for exactly your purpose.

I certainly was not impressed by what Wedtech had at that site.

Senator LEVIN. Well, seeing that facility, which would require months of extensive renovation at a minimum, how could you have concluded—or did you conclude—that Wedtech was capable of performing the pontoon work?

Captain DE VICQ. It was not so much concluding that they could as concluding that you could not prove they could not. I polled the members of the team at each of the places we went on two questions: How many of you think that folks at whichever site we were at could do a good job; and then the second question was how many of you think that they cannot do the job—because those are the sorts of questions that we would obviously be asked.

We never got unanimity on that. It was impossible to get the group to say that the job could not be done; equally impossible to say that for surety it would be a good job.

It was easy to distinguish between the nominees, however.

Senator Levin. To distinguish between whom and whom?

Captain de Vicq. The potential of the two nominees.

Senator Levin. And who were those two nominees?

Captain de Vicq. Wedtech Corporation for one, and the other one was the Medley Company of Philadelphia.

Senator Levin. Medley?

Captain de Vicq. Yes, sir.

Senator Levin. And when you say it was easy to distinguish between those two, tell us how it was easy to distinguish.

Captain de Vicq. Well, Medley was much more poorly located in terms of being able to get material in and product out; they were much smaller physically, financially, in terms of tools, in terms of work force—you name it.

Senator Levin. Is it fair to say that if Wedtech was frightening, Medley was even more frightening?

Captain de Vicq. After visiting there, I wondered why anybody would bother even to nominate them. Do not misunderstand me. They were nice people. I was impressed by Mr. Medley himself. But I could see no way that he could personally carry it off, and he was 99 percent of their corporate structure.

It just was not, in my view, at all possible that they could do it. It was possible that they could take on some small part of the work. Surely, they could have done some of the nonpowered stuff.

Senator Levin. As I understand your conclusion about Wedtech, going back to them for a minute, after looking at that facility, you felt you could not prove the negative, that they could not complete the—you could not prove that they could not complete the contract or begin the delivery of the first pontoons in the fall; is that the bottom line?

Captain de Vicq. That is correct.

Senator Levin. All right. Now, is it routine procedure to have a pre-award survey done on companies prior to such an award, particularly one this large and important?

Captain de Vicq. Yes, sir.

Senator Levin. And do you know why this one was not conducted?

Captain de Vicq. The estimates of the time it would take to do it were absolutely extraordinary, and we were able to get a substantial amount of the information that you get in a formal pre-award in a reasonably short time. So a formal one was not done, but a substantial amount of the groundwork that you do was accomplished.

Senator Levin. So it basically would have taken too much time, and this was a time-urgent contract?

Captain de Vicq. Absolutely. If it had taken as long to do a complete survey as those who do it had estimated to us, there is no way, no possible way, that the contractor could have succeeded.

Senator Levin. In getting delivery in the fall?

Captain de Vicq. Yes, sir.

Senator LEVIN. And apparently, the administrative contracting officer thought that lack of such pre-award was unprecedented. Were you aware of his feelings about that?

Captain DE VICQ. I understood his feeling about it.

Senator LEVIN. Now, were you or anyone you know of in the Navy aware that Wedtech was behind in its performance on the Army engine contract at the time of Wedtech's selection for the pontoon contract?

Captain DE VICQ. We were aware they were behind, but not to the degree that they were behind.

Senator LEVIN. And how was that issue addressed at the time that Wedtech was finally approved on the pontoon contract?

Captain DE VICQ. Well, we had——

Senator LEVIN. You were aware they were behind, but not as far as they actually turned out to be behind.

Captain DE VICQ. That is correct.

Senator LEVIN. So how did you handle the fact that they were behind? Was that discussed?

Captain DE VICQ. Well, the same sources that told us they were behind had indicated that Wedtech could do our work at the same time and that Wedtech was making turns to solve their problem on the small engine.

Senator LEVIN. And who was that—the same source as——

Captain DE VICQ. Our ACO and others.

Senator LEVIN. Okay. And once Wedtech was selected, and during the negotiations on the contract, did Wedtech represent that they could meet the Navy's deadline?

Captain DE VICQ. That is correct.

Senator LEVIN. And did you believe them?

Captain DE VICQ. Personally?

Senator LEVIN. Yes.

Captain DE VICQ. No, but I could not prove otherwise.

Senator LEVIN. Did you believe that they could perform the contract at the price that was arrived at during the negotiations?

Captain DE VICQ. I expected that they would take a small loss, and not because I thought they were not getting fair market value, but as I observed them, it appeared to me that they were likely to waste a lot of money trying to get there; and certainly they would have significant first-year start-up costs.

Senator LEVIN. Captain, I am now going to pull out from your statement a number of descriptions which you have made about Wedtech, and then, after doing that, I want to ask you a question. So this will take me a few moments to go through your descriptions.

You say that Wedtech's corporate performance was "inefficient" and "unskilled" and "short on accomplishments and follow-through." You describe their production planning and progress reporting, which was both essential to schedule adherence and projection, as "woefully inadequate." You stated that Wedtech's quality control was "poorly managed and inadequately documented" and that they failed to produce solid corrective action; that their housekeeping and safety practices were often appalling; that their safety and hygiene practices were so bad that DCAS New York threatened to remove its inspectors from the plant; that there was a pattern of late payments to the subcontractor, which led to strained relations and work stoppages.

Now, that was your assessment of their performance at the time; is that correct?

Captain DE VICQ. Correct.

Senator LEVIN. Now, given all this, how could anyone in the Navy have thought that this contract was going to produce any pontoons on time to meet the Navy and later the Army's needs; given all that assessment, how was it possible to reach the conclusion that they might be able to perform on time?

Captain DE VICQ. Well, I never reached that conclusion, and I do not recall anybody in a Naval uniform ever reaching that conclusion.

Senator LEVIN. Now, is it true that Wedtech's first pontoon units, which they thought passed muster, in fact failed the initial test, their first units?

Captain DE VICQ. The first P-1 units that they made, a great many of them failed.

Senator LEVIN. And what was wrong with them?

Captain DE VICQ. They were not square.

Senator LEVIN. Tell us what—were the corners supposed to be square, and they came out crooked, or what?

Captain DE VICQ. I know you have a line drawing of a pontoon assembly. It is a rigid structure into which a whole series of different pontoons are fit; very much like ice cubes in an ice cube tray. If you imagine for a moment you took all the cubes out of your ice cub tray, and then you made some a little too large and some not square and tried to put them in, they would not go.

Well, one of the basic requirements of that particular family of pontoonery is that it be repairable in the field from battle damage, and that it be done by Seabees. And you've got to know that when you pull out a broken part, you can take any replacement and stick it in the hole. So the things have to be the right size, and they have to be square. And a good deal of their first production was not.

In the case of their first powered unit, we totally refused it, and they had to scrap it, and that went back to two kinds of problems. They had bought an elaborate and a very good digitally controlled plate-cutting machine, but they did not know enough about the expansion of metal under the heat of the cutting torch to compensate and set the right dimensions in it. So they cut some plate that was just the wrong shape. When they set up their jigs, as we call them, to put together that plate, they failed to level it and to get a right angle, they dropped a plumb-line against a nonlevel surface, which produces not a right angle.

So that kind of inattention, that kind of lack of skill, that type of inexperience, just went along through.

Senator LEVIN. Did the contract call for interchangeability?

Captain DE VICQ. Yes.

Senator LEVIN. That each unit, in other words, be identical so that they could be exchanged with each other?

Captain DE VICQ. Yes. And we reserved the right to require that it be demonstrated, and we had it demonstrated.

Senator LEVIN. And did Wedtech fail that requirement?

Captain DE VICQ. Initially—but they got to where they could meet it.

Senator LEVIN. And did they fail that requirement despite the fact that Colonel Hein, I believe, calls this 1940s technology?

Captain DE VICQ. What technology?

Senator LEVIN. I believe Colonel Hein has described this as 1940s technology. Would you agree with that?

Captain DE VICQ. That is correct. In terms of the plate metal work, you could say 1930s technology, if you would like to, but it really dates from World War II.

Senator LEVIN. And did you and your team essentially set up Wedtech's inventory, production schedule, and production lines for them when they proved basically incapable of doing it themselves?

Captain DE VICQ. No, not—we had nothing to do with inventory. But in terms of——

Senator LEVIN. How about their production line——

Captain DE VICQ [continuing]. Recording their production planning and in recording against that plan their progress, we did have to set that up.

Senator LEVIN. So it was the reporting of their production, or was it their production lines itself that you helped set up?

Captain DE VICQ. The reporting. They went through several iterations on production lines. And although members of our staff up there might well have offered suggestions, we did not formally do anything like that.

Senator LEVIN. Do you recall that this pontoon project was on an urgent or emergency production report status at one point?

Captain DE VICQ. Yes.

Senator LEVIN. Is that called a "red status"?

Captain DE VICQ. It can be, yes.

Senator LEVIN. All right. And what does it mean to be on "red status"?

Captain DE VICQ. You are behind; there is probably more trouble in the future, and you had best solve it fast.

Senator LEVIN. Is this on any contract, just on time-urgent contracts?

Captain DE VICQ. Well, it is a technique that could be applied, I suppose, to any contract, but it most significantly is applied to time-urgent contracts.

Senator LEVIN. And did any Navy official suggest to you that you were "riding Wedtech too hard"?

Captain DE VICQ. Yes.

Senator LEVIN. And who was that?

Captain DE VICQ. Well, a couple of officials in the Secretariat.

Senator LEVIN. Who would that be?

Captain DE VICQ. One was Mr. Arny, and the other was his small business adviser, which at the time, I guess, was Bob Saldivar.

Senator LEVIN. And did Mr. Arny express concerns to you about your relationship with Wedtech?

Captain DE VICQ. Yes, in the sense that he thought that we were pushing them too hard.

Senator LEVIN. And you said that there was some pressure exerted on you as being internal from the Navy. What form did that pressure take?

Captain de Vicq. Well, the suggestions by Mr. Arny that were just mentioned. But there are a long series of periodic briefings to the board of officers that were overseeing the greater program of which we were a small part.

Senator Levin. Was Mr. Arny, by the way, Mr. Pyatt's deputy?

Captain de Vicq. Yes, sir.

Senator Levin. All right. At one time, I understand there was a special inspection team that was dispatched by the Navy to Wedtech to examine their problems, and this led to a report by a Captain Piersall; is that correct?

Captain de Vicq. That is correct.

Senator Levin. And was that a normal procedure?

Captain de Vicq. Not in my view.

Senator Levin. And were you surprised by it?

Captain de Vicq. I was.

Senator Levin. And were you familiar, then, with the findings of that report of September 28, 1984?

Captain de Vicq. I was.

Senator Levin. And did you agree with those findings?

Captain de Vicq. Some, but far from all. The finding that I agreed with least was the notion that Wedtech was soon to be producing right along and that our estimates of their production were too pessimistic.

I frankly did not know how they could arrive at that conclusion in the extremely brief amount of time they were given.

Senator Levin. Did they talk to you, by the way, as part of their investigation?

Captain de Vicq. Very briefly.

Senator Levin. And did you tell them what your opinion was on that subject?

Captain de Vicq. I certainly did.

Senator Levin. And that report, then, did not reflect your opinion, I gather?

Captain de Vicq. Not on that issue, it certainly did not.

Senator Levin. I want to read to you a memo from Bob Wallach's files. He was a consultant to Wedtech, and the memo that he wrote to his file is dated November 12, 1984.[1]

This is what he said. Excuse me. It is a memo to Mr. Mariotta, Mr. Neuburger, Mr. Moreno, and Mr. Guariglia, from Mr. Wallach.

"As we discussed, a private meeting with Captain 'D'"—who we assume is you——

Captain de Vicq. I do not know many others—a small "d"?

Senator Levin. Well, it is a big "D" in the memo—but his spelling is not always that great in his memos——

Captain de Vicq. Neither is mine, Senator.

Senator Levin. All right.

At any rate, he says, "As we discussed, a private meeting with Captain 'D' should be arranged at the company as soon as possible."

And then later on, he said that:

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[1] See p. 351.

> A subtle but explicit statement to him of the circumstances which produced the criticism of the purchasing contract should be discussed with him. He should be aware of Wedtech's general ally structure. The fact that we have it, and his awareness of it ought to be gently indicated so that he understands that we will view favorably with all we know his efforts to legitimately conclude this agreement and fulfill the Navy's responsibilities to the public.

Did anyone from Wedtech have this private meeting with you, and were you ever made aware of Wedtech's "general ally structure" as he phrases it, euphemistically?

Captain DE VICQ. Well, if they had such a meeting, I did not detect it. Now, they had a room that we came to call the "trophy room" in which were posted all over the walls photographs of various of their company officials with various people who do in fact have influence.

I suspect the most senior of that group was the President, and his picture was prominently displayed. But I have seen similar pictures in countless different contractors' places, and they never then and do not now and would not in the future matter a damn to me in terms of the business of doing the Navy's business.

I work for the taxpayer. It is that simple.

Senator LEVIN. Well, your efforts in trying to say "no" to this contract reflect those feelings which you have just expressed to us.

There was another line in this memo which said that you should be aware of Wedtech's general ally structure. I take it they did not specifically do that, but you——

Captain DE VICQ. No, they did not. I——

Senator LEVIN [continuing]. You might have been made aware of that by looking around the trophy room. But anyway, my question is this. It says this. In this letter to Mariotta and Moreno and so forth from Wallach, it says that after the meeting which he has just described that they should hold with you, "we should talk after this meeting." This is now Wallach talking to the Wedtech people. "We should talk after this meeting. Based upon what his reaction appears to be and your interpretation of it, I would think it appropriate to contact Saldivar and then decide about Pyatt."

"And one final thought," he said in this memo, "You might want to have a private conversation with Saldivar on this subject as well."

You are not familiar with that specific meeting which they held with you following that memo, if in fact that meeting ever took place?

Captain DE VICQ. No, no.

Senator LEVIN. I have a copy now of an ad which I think you are familiar with from "Seapower Magazine"——

Captain DE VICQ. Leave it on your desk, Senator.

Senator LEVIN. All right—you are familiar with it. This ad is October 1985. Wedtech in this ad, a full-pager, refers to itself as "Navy's sea legs" and then they say:

> Thanks to the Navy's team, headed by Vice Admiral T.J. Hughes and Captain D.C. de Vicq, in one short year, they piloted a minority-owned defense contractor through the heavy seas of competition, setting a course for safe passage to contract fulfillment. Thanks for giving us our sea leg.

The ad concludes.

Were you aware that your name was going to be used in this advertisement?

Captain DE VICQ. No, sir.

Senator LEVIN. And what was your reaction when you found out?

Captain DE VICQ. Well, it was a mixture of outrage and humor. It was so outrageous, it was funny.

Senator LEVIN. And to your knowledge, did Admiral Hughes know that his name was going to be used?

Captain DE VICQ. He certainly did not, and he greeted it with only half the mixture I described.

Senator LEVIN. Which half?

Captain DE VICQ. Outrage. [Laughter.]

Senator LEVIN. Captain, let me talk to you briefly about the options on the contract. The contract states that the Navy, the SBA and Wedtech will negotiate a price for the options within 90 days. The contract goes on to state, "If no agreement reached between SBA, Wedtech Corporation and Navy during the 90-day calendar date period, the option quantities will be withdrawn from the contract."

Now, by my calculation, the 90-day period for the exercise of the options expired in mid-July. Was agreement reached with the SBA and Wedtech within that 90-day period?

Captain DE VICQ. I do not know, Senator. I would have to have a replay of all the different dates. As you are aware, I think, I took no paperwork home with me when I retired.

Senator LEVIN. Right. Let me help you out. Let me just stipulate that they were not, okay? I will tell you that they were not reached within the 90-day period, and assume that now, if you would. I will refresh your recollection on it.

Now, there is a memorandum of yours dated February 12, 1985 in which you state that "The real windows to drop the 1985 option were missed last fall, as we said at the ASN meeting last September." [1]

It was on that basis that you conclude that the 1986 options should be competed, but it was too late for the 1985 option, which must go to Wedtech.

So here is the question. Did you recommend to the Assistant Secretary of the Navy in September of 1984, as your memo suggests, that the 1985 options be dropped from the contract?

Captain DE VICQ. Yes.

Senator LEVIN. And on what basis did you make that recommendation?

Captain DE VICQ. Performance to date, the best I could do to project it.

Senator LEVIN. Just a few more questions, Captain, and then we will move to Colonel Hein.

Were you aware that Wayne Arny proposed granting the first set of contract options in November of 1984 to Wedtech by means of a so-called "letter contract"?

Captain DE VICQ. Yes, I was.

Senator LEVIN. And what is a "letter contract"?

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[1] See p. 289.

Captain DE VICQ. A license to steal.

Senator LEVIN. How does that work?

Captain DE VICQ. I did not say that loud enough? I will——

Senator LEVIN. Yes. That will perk up a few ears. How does the letter contract work?

Captain DE VICQ. Well, it directs a contractor to proceed, costs to be established at a later date. That is basically what a letter contract does. They are used extraordinarily rarely. I can only remember one in the 28-plus years of service in the Navy. But I can tell you the kind of situation under which you would use one.

Let us say you are commanding officer of a Naval station, and a typhoon hit it, and it wiped out a number of facilities, among them your radio facility, and you felt you had to have that immediately. You could then give a letter contract to a fellow to come in and get that up for you right now. The idea is that you negotiate and go to a formal contract as rapidly as possible thereafter.

And in my view, had we tried that with Wedtech, that would have been a license to steal, because they could have dragged their feet on negotiation for a substantial amount of time; they could have made it impossible to negotiate by withholding information that had to be audited, and that would have dragged it out; and in essence, the Government is bound to pay what the costs are to a contractor before such a negotiation could be completed.

So to me it was—and I will say it again—a license to steal.

Senator LEVIN. As I understand, you described this proposal as "insane" to our Committee staff, in fact, under the circumstances.

Captain DE VICQ. That is the same way I described it to my boss.

Senator LEVIN. And what was the reaction of the other NAVFAC officials to that proposal?

Captain DE VICQ. Somewhat stronger than mine.

Senator LEVIN. Now, at the time that it was considered, did you agree that the Navy should seek a second source of production to fulfill the pontoon contract—and did you in fact——

Captain DE VICQ. I do not know if the timing is exactly that, Senator.

Senator LEVIN. All right. At some point did you inspect Bay City Marine of San——

Captain DE VICQ. Oh, absolutely, yes. It became apparent——

Senator LEVIN. They were the possible second source; that is why you were looking at them?

Captain DE VICQ. Yes. It became apparent that we needed to find some way to get some of the eggs out of that basket.

Senator LEVIN. Out of the Wedtech basket?

Captain DE VICQ. Yes.

Senator LEVIN. And how did it stack up against Wedtech?

Captain DE VICQ. Bay City Marine are far superior in terms of an opening position, in my view.

Senator LEVIN. And Mr. Saldivar, who is also going to testify today, inspected Bay City Marine with you. Did he share your assessment of it, do you know?

Captain DE VICQ. I think—he will speak for himself, but I think he did.

Senator LEVIN. Why wasn't that second source of production adopted, given the critical needs of the Navy?

Captain DE VICQ. I beg your pardon?

Senator LEVIN. Why wasn't a second source utilized given the critical needs that the Navy had?

Captain DE VICQ. Well, final decisions on why not or why to would have occurred after my tenure, but I believe that the program had some funding cuts, and the quantities got down to where folks felt that it was not viable starting out in that quantity. But I do not know that for fact, Senator. That is just my understanding.

Senator LEVIN. Fair enough. After you retired from the Navy in the spring of 1986, do you recall receiving a telephone call from Wedtech consultant Richard Ramirez, who was the former Director of the Small Business Advocacy Office in the Navy, and who had also been involved with the pontoon contract?

Captain DE VICQ. I do.

Senator LEVIN. And what did he say to you at that time?

Captain DE VICQ. He suggested that folks were looking for consulting assistance, and I had one of the longer and better laughs that I have ever had in my life.

Senator LEVIN. He was offering you money for a job, or what?

Captain DE VICQ. He was sounding me out to assist in consulting. Apparently, he had established a consulting firm himself, and apparently, he had been requested by somebody—Wedtech or its representative—to determine if I would not like to go and help them in some fashion.

Senator LEVIN. To help "them," meaning Wedtech?

Captain DE VICQ. Yes.

Senator LEVIN. And what was your reply?

Captain DE VICQ. "No, hell, no."

Senator LEVIN. And did Admiral Hughes ever tell you that he had received a job offer from Wedtech?

Captain DE VICQ. Yes, he did.

Senator LEVIN. What were the circumstances of that offer?

Captain DE VICQ. I suspect that you know that Admiral Hughes is every inch an Admiral. He is, in my opinion, one of the most competent men I have ever met in my life. Being half Irish and from Boston, I can appreciate another Irishman, and Admiral Hughes has a temper in addition to all that competence. And when he mentioned that he had been made some sort of an offer by Wedtech, his face was about the color of your staff assistant's delightful dress—that is to say, red.

It happened to be at the last meeting that the Admiral and I had; I was introducing my relief to him. And he mentioned this and turned red, and it caught me as rather humorous, because anybody who would believe for a second that Vice Admiral Hughes could be bought for any amount of money, clearly, never met the man.

So in an effort to lighten it up a little bit, I said, "Gee, Admiral, that is only half what they offered me." And then the color changed from the color of that red dress, more like the gray suit next to it. And then he realized that I was pulling his leg, and we both had a good laugh.

Senator LEVIN. Was there a specific amount of money in their conversation with you that they mentioned?

Captain DE VICQ. I think he mentioned a figure, and I would hesitate to quote it from memory.

Senator LEVIN. All right. And do you know whether or not he mentioned a specific sum to Admiral Hughes?

Captain DE VICQ. I beg your pardon?

Senator LEVIN. Do you know whether or not he mentioned a specific sum to Admiral Hughes?

Captain DE VICQ. Whether who mentioned it?

Senator LEVIN. Whoever offered him the job.

Captain DE VICQ. I believe they did, but I do not of personal knowledge know.

Senator LEVIN. Thank you very much, Captain. We will have just a few more questions for both of you later. Let me now turn to Colonel Hein.

Colonel, thank you for sitting there so patiently. You, as I understand it, assumed your assignment at the Defense Contract Administration Services, DCASMA, in June of 1984, shortly after Wedtech was awarded the initial contract to produce the pontoon causeways for the Navy. As I understand it, your job was to assist the Navy in the administration of the contract; is that correct?

Colonel HEIN. Yes, sir.

Senator LEVIN. How many of your staff were assigned to Wedtech's plant, and what were their duties?

Colonel HEIN. There were approximately a dozen. The number varied from time to time as we put people in there to take care of specific problems. And we kept a number of them on temporary duty there from time to time to assist, also.

We had quality assurance types, contracting types, production types, basically.

Senator LEVIN. And so you were in a position to have a hands-on understanding of Wedtech's performance on this pontoon contract?

Colonel HEIN. Yes, sir. And we also had our contracting meeting each morning at about 8:30, for a long period of time, until we opened residency physically in the plant, and then our officer in charge had meetings daily with the people.

Senator LEVIN. And in your statement to this Subcommittee, you said that Wedtech's performance on this contract was "unacceptable in the beginning, substandard afterwards."

Colonel HEIN. Yes, sir.

Senator LEVIN. What was wrong with their performance?

Colonel HEIN. Well, as Captain de Vicq mentioned, the quality was pretty poor, the cleanliness was poor, the safety was poor. We made recommendations as did Captain de Vicq's engineers, who were in the plant quite often, and we were pretty much ignored.

Senator LEVIN. You stated that the company was never once on time with a delivery despite the fact that the Navy considered adherence to the delivery schedule to be one of if not the most important parts of the contract performance; is that correct?

Colonel HEIN. That is correct, sir.

Senator LEVIN. And you restated that the quality control and workmanship was very poor.

Colonel HEIN. Very poor.

Senator LEVIN. Now, Lieutenant Lowndes, whom you assigned to establish the office at Wedtech, said that the quality was unacceptable, and everything had to be rechecked or 100 percent certified. Was that unusual?

Colonel HEIN. That is unusual. Sometimes for a small business, when they are getting started, you have a lot of problems because of lack of experience, but this continued quite a ways.

Senator LEVIN. And what did your staff do to try and assist Wedtech in producing the pontoons adequately and in a timely manner?

Colonel HEIN. Well, we were there at most phases of their production, trying to help them. I kept one of my quality assurance engineers there for a long period of time, helping them go over plans, explaining them. Of course, Captain de Vicq had for several months three engineers physically in the plant, and they did a lot of the technical part, which is quite an advantage to a company. You rarely have the advantage of having three engineers from your buying agency there to help you.

Senator LEVIN. And what did your subordinates report to you about Wedtech's quality assurance, their delivery schedules, and their general level of cooperation?

Colonel HEIN. Well, in the beginning they did not really have any quality control. They had written into their plan that the Government would do it which is, of course, not the way things work. That is what they are paid for, to do their quality control. We received a lot of heat through back channels on this. We finally were able to get it established that we, the Government, did not do their quality control.

Workmanship, as described by Captain de Vicq, throughout the thing was pretty lousy.

Senator LEVIN. What was the attitude of the Wedtech officials towards the Navy and DCASMA's efforts to improve their contract performance and production?

Colonel HEIN. Well, we made a lot of recommendations to them, and we talked to them constantly, but I really do not think they paid much attention to us.

Senator LEVIN. What did they do to try and satisfy the Navy's concern for timely delivery of the pontoons?

Colonel HEIN. I cannot recall Wedtech really doing anything in particular.

Senator LEVIN. You have told our staff, I believe, that they actually used sledgehammers in their work?

Colonel HEIN. I did not mention that, but I know for a fact that they used those things to try to get some of the pontoons to fit when they were put in the rigid form that Captain de Vicq explained they went into.

Senator LEVIN. Was that surprising?

Colonel HEIN. It is not a normal technique, no, sir.

Senator LEVIN. For those of us who might not know why, would you tell us why that would not be considered normal? I used to work in a Desoto automobile factory, where they used some pretty heavy hammers to try to get doors to hang on straight.

Colonel HEIN. Well, if you had to use that kind of technique to get the things to get in there, then how is the poor guy in the field ever going to repair it under combat conditions, or if it is floating in the water, going up and down, and these kinds of things?

Senator LEVIN. You have told the Subcommittee staff that Wedtech always told everybody what they wanted to hear. What did you mean by that?

Colonel HEIN. Well, if we asked them, "When are you going to get Pontoon 112," or whatever the numbers are, "out? When is your shipping schedule?" or something about the production plan, they would give you any particular answer they thought that you wanted to hear.

I gave one example. We had two Assistant Secretaries of the Navy and another Navy official in the plant, and we started walking in threes, two of the company officials on each side of these people, explaining things, going through the plant. And I was sort of on the outskirts, monitoring the conversations. And just by coincidence, they all asked the same question, at about the same time: When is the next pontoon or causeway going to be delivered? And they got three different answers.

So I stopped them there in the middle of the plant, and I said "Wait a minute." And so we discussed that for a while.

Senator LEVIN. Captain de Vicq, you were kind of shaking your head at that. Do you agree they were always telling people anything they thought the folks wanted to hear?

Captain DE VICQ. That is one of the reasons that we had to set up an extensive tracking and projecting system of our own, because it did not matter when you wanted them; they would say that is when you would have them.

Senator LEVIN. So if you said you needed them yesterday, they would say probably that you would have them yesterday.

Captain DE VICQ. Terrific; we could have them yesterday—just about.

Senator LEVIN. Okay.

Captain DE VICQ. Now, Senator, I want to inject that there was a hunk of Wedtech that did pretty well. It did not happen to be in the South Bronx. But I know the folks at the shipyard in the upper peninsula of Michigan that they acquired probably are cringing at everything they read about the misadventures of the parent company.

But I want to state very clearly that that operation in upper Michigan was heads-up from day one to the last day that I was aware of how it functioned. I do not recall any rejection problems with their work. I do not recall any quality control problems with them. Their operation was so good that I never found it necessary to go up to that plant.

Colonel HEIN. That is a good point, though, but it highlights the fact that there was nothing difficult about making these pontoons. Here is a company, a subsidiary, that starts after Wedtech had already had some months or a year doing this thing, and starts right up and has no problem, just goes, zip, zip, zip. And here, the parent company cannot do it. In fact, they were going to bring their production manager down from Ontonagon and put him to work in the plant there in the Bronx, and I told them why screw up another outfit; let the good one keep working.

Senator LEVIN. Well, I know the people in the upper peninsula who I happen to represent will appreciate your comments, because that shipyard and their people lost a great deal—their jobs—as a result of this fiasco, so it is a matter that I am obviously familiar with and it was of great concern to me.

Colonel, did you or your staff ever suggest the withholding of progress payments or other moneys from Wedtech because of their repeated production failures and schedule slippages?

Colonel HEIN. Yes, sir, we did. At first there was quite a bit of resistance to it, because Wedtech had told the Navy Contracting Office, "If you withhold our progress payment, we are going to quit work." And as you know, the first ten causeways—I think that is the right number—were very critical to the Navy, and so they put a lot of pressure on the Navy. But we did from time to time withhold money.

Senator LEVIN. And what was the reaction from Wedtech to that threat?

Colonel HEIN. To withhold money?

Senator LEVIN. Yes.

Colonel HEIN. Well, they were upset about it, but they really did not think we could do it.

Senator LEVIN. They did not think you could do it?

Colonel HEIN. Yes, sir. They did not think we could do it.

Senator LEVIN. Why?

Colonel HEIN. They figured that they could go around us. It was quite a while down the road before they realized that we had some authority to do things.

Senator LEVIN. "We" being at your level?

Colonel HEIN. DCASMA, yes, sir.

Senator LEVIN. Yes. And I believe you also told the Subcommittee staff that Navy officials cringed at the idea of withholding progress payments. Is that true?

Colonel Hein. That is true because of the threat by Wedtech to stop producing those 10 critical causeways they needed on those ships.

Senator LEVIN. And what do you know about the quantity of production waivers that was granted to Wedtech on the contract, these waivers being exemptions, as I understand it, from technical and other specifications?

Colonel HEIN. That is correct.

Senator LEVIN. Was there an unusual number of those waivers?

Colonel HEIN. There was a large number at the beginning. In fact, there was a joke going around in effect that there were so many waivers on the form, there was no place to sign acceptance. That is, of course, not correct. But the contracting officer had to come down and waive most of the discrepancies on those first pontoons so they could be accepted.

Senator LEVIN. Colonel, your subordinate, Lieutenant Lowndes, said she thought the award of the first 1985 option, the first options for 1985, was unusual, given the fact that Wedtech had not yet delivered anything and had severe quality assurance problems. Do you agree with that assessment?

Colonel HEIN. Yes, sir.

Senator LEVIN. And after Wedtech was awarded the first set of options, which resulted in millions of dollars being made available to the company, did their performance improve?

Colonel HEIN. It improved gradually over a long period of time, mostly, I think, due to Captain de Vicq's people helping them on the technical side and pushing them all the time.

Senator LEVIN. Is it fair to say, as I believe you have stated to our staff, that their performance went from unacceptable in the beginning to substandard later on?

Colonel HEIN. Yes, sir.

Senator LEVIN. And that was after the Navy had poured a large amount of money and manpower into this project?

Colonel HEIN. Well, the money they poured in was, of course, contractual progress payments, and then Captain de Vicq's people sent in TDY at some considerable cost to the Navy to help Wedtech out and try to get on with production. It if had not been for that help from Captain de Vicq's office, I do not think they would have gotten anywhere.

Senator LEVIN. Now, on April 11, 1986, which was shortly before the award of the 1986 option, you wrote a memorandum outlining your concern with what you regarded as Wedtech's financial deficiencies and delinquencies on other Government contracts. In this memo, which is addressed to the Commander of the Naval Facilities Engineering Command in Rhode Island, you assert that Wedtech had "incurred a loss" on both the base contract and the options and was experiencing serious cash flow problems.

You also stated that Wedtech had "fully used its $38 million line of credit."

Now, a financial pre-award survey, you said in this memo, was "mandatory", and you underlined the term, because of the cash flow problems.

You also stated that Wedtech was placed on "reporting of serious quality problems list" and that "Wedtech is currently delinquent on 9 contracts, including the two largest by dollar value." So that on half their pending contracts, they were delinquent.

Do you remember writing that memorandum? [1]

Colonel HEIN. Yes, sir. That is a little bit misleading. The reason I wrote it that way is because I had written a previous document stating the company was delinquent on all contracts, which is really more accurate. You see, the only contracts they were not delinquent on were those that did not have a delivery date yet.

Senator LEVIN. So on the ones that had a delivery date, they were delinquent.

Colonel HEIN. All of them. Now, they had changed, because of delinquencies, the delivery date on several contracts, to try to bring them up-to-date and protect the Government's interest. But basically, from original contract deliveries, they were all delinquent.

Senator LEVIN. All right. Let me just make sure I understand that, because I misread it slightly. On all of the contracts where there were official delivery dates, they were delinquent?

Colonel HEIN. From the original contract specifications. Some of them were modified to protect the Government's interest so it made them look like they were not behind anymore. If you are in contracting, and you let something go, and you do not use your remedies, you lose your position.

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[1] See p. 310.

Senator LEVIN. All right. But on all of the original delivery dates as set by all the contracts, they were behind?

Colonel HEIN. Except those that did not have a delivery date that had occurred yet.

Senator LEVIN. That is right. So I am saying on all the contracts which had original delivery dates specified, they were behind.

Colonel HEIN. Yes, sir.

Senator LEVIN. All right. Do you remember writing that memo?

Colonel HEIN. Yes, sir.

Senator LEVIN. And why did you write that memo?

Colonel HEIN. I was concerned about this option, for all the reasons you have heard today; a bad situation.

Senator LEVIN. And did you recommend a formal pre-award survey?

Colonel HEIN. Yes, sir.

Senator LEVIN. And was a financial pre-award survey conducted?

Colonel HEIN. Yes, sir.

Senator LEVIN. And did they fail it?

Colonel HEIN. They failed the first one and, I believe, the second one. I think that there were actually three. I know your board shows two, but I think there was a second one in there, a second financial-only.

Senator LEVIN. All right. Now, what else occurred after you sent that memo?

Colonel HEIN. There was a lot of contact back and forth with the Navy and, I understand through third-hand information that the Secretary got a copy of it, and he instructed that the financial pre-award survey be done—but that is hearsay; I do not have any first-hand information on that.

Senator LEVIN. Is there a difference between a financial pre-award survey and an initial pre-award survey?

Colonel HEIN. Well, I am not sure how they use the word "initial." "Initial" normally means the very first one before the company gets any contract at all, way back in the beginning. I think that is what that refers to.

Senator LEVIN. The study showed that there were discrepancies for March, as I understand, and it concluded that Wedtech's negative cash position at the end of December 1986 would be projected to be about $11 million. Now I am quoting from that study: "It is evident that without the establishment of a new line of credit, the contractor will not be able to operate during the balance of the year 1986." [1]

I am wondering if you were aware of that analysis, and if so what was done about it?

Colonel HEIN. I do not recall seeing this one until a few minutes ago. I may have seen it when it was out in work form, but I do not recall it. I do remember at that time we were doing a lot of financial studies with our Financial Services Branch because of the pre-award surveys.

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[1] See p. 312.

Senator LEVIN. Let me just go back for one moment. What was the reaction at Wedtech to the recommendation that Wedtech not receive the 1986 option, the second set of options?

Colonel HEIN. Well, it was not favorably received, obviously. There were a lot of calls back and forth to the staff.

Senator LEVIN. And what was the reaction among the Navy officials with whom your office was working?

Colonel HEIN. Well, at that time, Captain Kelly had replaced Captain de Vicq, and he was not very happy with this, and he expressed the fact that he thought that they should have the contract, and their financial situation was none of my business.

Senator LEVIN. Did you agree with that?

Colonel HEIN. Of course not. That is our business—especially with a small business contractor, where you have an unusual relationship of trying to help the company, work with the Small Business Administration, and produce the item. In a small business atmosphere, you know, you can help them more than you can in a normal large business.

Senator LEVIN. Now, you have said that there were a number of pre-award surveys which were taken. So let us talk now about the second one. I gather there was a second pre-award survey undertaken. What were the results of that second survey?

Colonel HEIN. That was a financial-only, and I think it was also negative. I know the first two that we did were negative. The third one was taken out of my hands.

Senator LEVIN. Well, before we get to that third one, though, in your experience, is it unusual for a second such survey to be undertaken after an initial one has come up with such negative results?

Colonel HEIN. Unless there is some overriding reason or some very important information that was not available in the beginning.

Senator LEVIN. And who conducted that second pre-award survey?

Colonel HEIN. My office did.

Senator LEVIN. And then there was a third survey, you believe, right?

Colonel HEIN. Yes, sir.

Senator LEVIN. And what was your role in the third survey?

Colonel HEIN. That was taken out of my hands. Captain Kelly had gone to my boss, General St. Arnaud, and complained about things, and it was taken out of my hands.

Senator LEVIN. And were you given any special instructions by your superiors following that final survey?

Colonel HEIN. During this period of time, one of the people—I am trying to think—General Rosenbloom, who was then a consultant to Wedtech, had called the General and told him that the company had threatened to sue me for $10 million for being in the way, and that Rosenbloom had talked them out of doing that, and that after that he thought maybe I should take a lower profile with the company.

Senator LEVIN. Who suggested you keep a lower profile?

Colonel HEIN. My boss.

Senator LEVIN. Who was that?

Colonel HEIN. General St. Arnaud.

Senator LEVIN. And were you ordered to stay away from a meeting or meetings at Wedtech?

Colonel HEIN. It was suggested that I not go to the meeting at Wedtech.

Senator LEVIN. And who did that?

Colonel HEIN. That was a combination—as I recall, the General mentioned it.

Senator LEVIN. Pardon?

Colonel HEIN. I think the General mentioned that, also.

Senator LEVIN. But who suggested it?

Colonel HEIN. I think my boss, General St. Arnaud suggested it, but the regional attorneys thought that might be a wise thing to do, too.

Senator LEVIN. The attorneys?

Colonel HEIN. Yes, sir.

Senator LEVIN. Because of the threat to sue you?

Colonel HEIN. Yes, sir.

Senator LEVIN. And on May 12, 1986, and again shortly before the award of the 1986 options and about a month after you had written your memorandum requesting a pre-award survey, the chief of the Financial Services Branch of the Contract Management Division wrote a memo, outlining his office's analysis of Wedtech's cash flow projection. And that is the one, as I understand it, which said that there would be a negative cash position of $1.4 million rather than a positive cash position of $4 million reported by Wedtech. Is that right?

Colonel HEIN. I have got it here, and that is what it says. We were getting a lot of cross-information. We had, I think it was three cash flows done in that one month; all saying something else. All the information we got from them was conflicting.

Senator LEVIN. All right. And were you aware of that analysis at the time?

Colonel HEIN. I do not recall off the top of my head; I do not recall it, sir.

Senator LEVIN. I believe that in the right-hand corner there, there is a handwritten notation that says "Captain T. Kelly." Do you know whether or not Captain Kelly, who was then the program manager, saw this memorandum or was aware of its contents?

Colonel HEIN. I do not know if he did or not. He was physically in our office a large part of the time during the survey, and it is a good possibility he did.

Senator LEVIN. A good possibility that he did. So that someone in the Navy, you assume, was aware of Wedtech's negative cash flow at the time that it was awarded the 1986 option?

Colonel HEIN. I would say Captain Kelly had to know, because we were talking to him and giving him information, you know, as fast as we got it.

Senator LEVIN. Did anybody associated with Wedtech ever represent to you that they could or would go over your head or bypass your command if they did not like your recommendations on the pontoon contract?

Colonel **Hein**. They never told me that to my face, but the air in the company had always been to ignore us when they could, and they would go around us, and we would get feedback that they had.

Senator **Levin**. Did Bernard Ehrlich and others, Moreno included, intimate that they would go over your head?

Colonel **Hein**. Moreno did not; he sort of ignored us. Ehrlich would sort of say, "Well, you know, you really need to handle this thing before the company does this and this and this," and he would mention the fact that maybe the company would go around to other means that they had to take care of it.

Senator **Levin**. Were those means somebody in a higher position than you?

Colonel **Hein**. That was the indication, but he never mentioned specific names or places or anything.

Senator **Levin**. But you understood him to mean that?

Colonel **Hein**. I had an understanding that he was probably talking about, perhaps, one Senator that he had dinner with occasionally.

Senator **Levin**. So you understood, without—he did not mention names, but you understood that he would go around you to some higher authority?

Colonel **Hein**. Well, the company would.

Senator **Levin**. That the company would, yes.

And do you believe that your objections to Wedtech's contract performance caused you problems with your superiors?

Colonel **Hein**. It caused problems.

Senator **Levin**. What type of problems, and how were they caused?

Colonel **Hein**. Well, I was having problems with two contracts. I mentioned before we had the DPSC problem where the senior civilian, who is a GM-16, or equivalent to a brigadier general, was giving misinformation to our bosses, and my boss was getting a lot of heat because of that. We were also getting heat from the Navy side because of the sensitivity of the Wedtech contract.

So between the two, it caused my boss really to lose confidence in us.

Senator **Levin**. Your boss, what?

Colonel **Hein**. To lose confidence in us.

Another thing to say in his behalf, he was a new brigadier general, came in frocked, new to contracting. I kept telling him we were surrounded by crooks; he did not believe me. He thought I was paranoid. He had no experience in contracting, and he did not understand what I was talking about, so he reacted to what his bosses were telling him—in my opinion.

Senator **Levin**. Reacted to——

Colonel **Hein**. To the pressure and the things that his bosses told him.

Senator **Levin**. Who were his bosses?

Colonel **Hein**. Well, he worked for General Babers, and General Litke at the time.

Senator **Levin**. Going back to that threat to sue you, what was the claim that Wedtech was making that you had done? What was the threat based on?

Colonel HEIN. Well, you know, I was not told a whole lot about it other than apparently, Captain Kelly had told Wedtech that I was standing in the way of getting the contract. That is what it amounted to.

Senator LEVIN. And as I understand it, General Rosenbloom then was retired?

Colonel HEIN. Retired, consultant to Wedtech.

Senator LEVIN. And he was a consultant to Wedtech, and he had informed your superiors that Wedtech was threatening this lawsuit.

Colonel HEIN. Yes, sir.

Senator LEVIN. Did you know who in particular he informed—is that the General again?

Colonel HEIN. Yes, sir.

Senator LEVIN. Who was it he informed about the lawsuit?

Colonel HEIN. Well, Rosenbloom told General St. Arnaud, my boss; that is all I know about it.

Senator LEVIN. All right. And was that threat ever carried out?

Colonel HEIN. Not to my knowledge.

Senator LEVIN. And what was the reaction of your superior?

Colonel HEIN. Well, he was a little bit concerned. And there was a lot of pressure. Like I said, he was a new guy; he had only been there since October. This was sort of a new world to him, and he was reacting as best he could.

Senator LEVIN. Now, you have told our Subcommittee staff that you believe Captain de Vicq's replacement as program manager, Captain Tim Kelly, revealed to Wedtech facts which you had related to him in confidence. Can you tell us about that?

Colonel HEIN. Well, from what the General told me about the threatened lawsuit and the reasons, the only way they could have known that kind of information that he just relayed vaguely—and I do not remember all the details, it has been so long—that could only come from one place.

Senator LEVIN. And did you believe at the time that Captain Kelly had revealed to Wedtech facts that you had given to him in confidence?

Colonel HEIN. From that point on, it became evident, because those things were things we discussed with him, and my staff worked with these things, and of course, we did not tell Wedtech.

Senator LEVIN. And do you think that your objections to Wedtech's contract performance in any way led to problems for you personally and your command?

Colonel HEIN. Well, I would say those and the Directorate at DPSC. I would say it was a combination of those and the Directorate of DPSC. DPSC was a real problem as well.

Senator LEVIN. There were two problems, then?

Colonel HEIN. Yes, sir. Actually, three.

Senator LEVIN. Three. But this was one of two or three that led to problems with your——

Colonel HEIN. I had Freedom Industries, which was of political interest; and I had Wedtech, and of course, the crooks that now have pleaded guilty at DPSC. Between those three, I was getting a lot of heat.

Senator LEVIN. From your command.

Colonel HEIN. Yes, sir.

Senator LEVIN. Let me now address this to both of you, and then I will turn to Senator Cohen.

Let me summarize something, Captain, and then I will ask you a question. In January 1983, you were called to a meeting with the Assistant Secretary of the Navy, in which you argued that the contract should not be given to an 8(a) company. You stated that you left that meeting with great foreboding.

When Wedtech first took you to see the roofless building which they planned to renovate for the pontoon project, you found the proposed facility "frightening," and you thought they would have to be "precious lucky," you told our staff, to perform the contract adequately.

When Wedtech started work on the pontoon contract, they were using uncertified welders, you have indicated, in an uncompleted facility, and their quality control was horrible.

You have stated that Wedtech's production, planning and progress reporting were woefully inadequate; housekeeping and safety practices were often appalling.

So far—okay?

Captain DE VICQ. [Nodding head.]

Senator LEVIN. You stated that an attempt was made to give Wedtech the 1985 options on a letter contract basis, which would have enabled them to escape price negotiations; you stated that the idea of a letter contract under the circumstances was insane. You have also stated that when Wedtech ran into problems, that you would get promises and promises, that nothing would change. And when you found it necessary to reject work, you stated that there was pressure from the Secretariat not to push the contractor so hard.

Those were comments which I believe you made to my staff; is that correct?

Captain DE VICQ. Correct.

Senator LEVIN. Now, to you, Colonel Hein. You stated that Wedtech's performance was substandard, and in the beginning, unacceptable; that they could not meet a schedule; that they could not even build a square box. You stated they could not come up with a production plan for the contract; the Navy had to do it for them.

So far, so good?

Colonel HEIN. Yes, sir.

Senator LEVIN. Wedtech's attitude toward you and the other DCAS auditors was to ignore you, to provide you with as little information as possible, to tell you what they thought you wanted to hear. You stated that they thought you and your auditors had no recourse because—I guess it was Ehrlich who said—they could go around you.

So far, so good?

Colonel HEIN. Yes, sir.

Senator LEVIN. You stated that if you stood up to Wedtech—this is now what I understand you told to my staff—if you stood up to Wedtech and tried to make them produce what they were paid to produce, you would get in trouble.

Did you say that to my staff?

Colonel HEIN. I took a lot of heat because it came down in the form of complaints.

Senator LEVIN. All right. And then at one point you threatened to withhold progress payments from Wedtech, and the Navy cringed, for the reason you gave.

You stated that you tried to make Wedtech do their job, and that you caught hell for it for a couple years; correct?

Colonel HEIN. Yes, sir.

Senator LEVIN. In 1986, Colonel, you learned that Wedtech was having severe financial difficulties. You also discovered that they were making inconsistent and misleading statements in their financial disclosure statements and progress reports.

You insisted upon a pre-award survey, which showed that Wedtech was not financially capable of performing the 1986 option. When the Navy program manager found out about your recommendation, he asked you by what authority you had reported Wedtech's problems to the Navy and insisted upon a second pre-award survey, and then you said that either that or the third survey was taken out of your hands, and you were ordered to keep a low profile with Wedtech.

As I understand it, the second study—or the third study, as you testified—reversed the findings of the ones that you had conducted, and that third study recommended an award to Wedtech.

Colonel HEIN. Yes, sir.

Senator LEVIN. Well, I want to thank both of you for testifying——

Colonel HEIN. May I make one——

Senator LEVIN. Of course.

Senator COHEN. Is there anything that Senator Levin left out? Did he leave anything out?

Senator LEVIN. I was just going to turn it over to Senator Cohen, but let me ask Colonel Hein if he wants to add something before I turn it over to my good colleague.

Colonel HEIN. There is one thing about pre-award surveys and dealing with a small business. The Small Business Administration can override the agency's findings and award the contract anyway. So if we had done a pre-award survey and it had been negative across-the-board, it might not have done us any good.

I think that perhaps in your review of 8(a) you may look on the authority of Small Business to override the agencies, because this has caused a lot of problems, not just here, but in a lot of other contracts where they have overridden good, sound advice and the agencies skill. The Small Business Administration—this is a personal opinion—does not have the skill in most cases to evaluate these contracts, but they still override the agencies and put us in these positions.

Senator LEVIN. Thank you, Colonel.

Senator Cohen?

Senator COHEN. I just have a couple of questions, Mr. Chairman, and perhaps you can fill me in as I go along here, not knowing what you have testified to this morning, Colonel and Captain.

Captain, my understanding is that you testified that the 1985 option be granted to Wedtech?

Captain DE VICQ. Yes, sir.

Senator COHEN. Is that because we had too much invested at that point, and selecting a different contractor would have involved delays?

Captain DE VICQ. At that stage of the game, in my opinion, it was in the best interest of the Government to continue.

Senator COHEN. Now, Colonel Hein, I think you also indicated that the Navy personnel that you had contact with did not want to see the 1985 option go to Wedtech?

Colonel HEIN. Right.

Senator COHEN. Did they think the Navy was going to be better off by absorbing all the costs, by starting over, or by starting up with a new contractor? What was the reason?

Colonel HEIN. That was my feeling, sir, that—

Senator COHEN. Well, it had to be more than a feeling. What kind of discussion did you have? Was it written, was it oral? What Navy personnel were they? Were they high-level, low-level?

Colonel HEIN. I talked mostly at that time with the contracting people, who were running the contract, whom we sort of worked for; they were the people who did the contract administration for Rhode Island. I know Dave de Vicq's position and why he wanted to do that—sort of the lesser of two evils.

But I could not see, considering that at that time they have not delivered anything—I do not recall anything being delivered at that point—and the situation there, how they could ever get any of these pontoons out and correctly, with the quality problems. I thought, even though it would be a severe handicap for the Navy to have to start from scratch, that at least they would get something in the end that was a quality product and do what the Navy needed to have done.

Senator COHEN. Which contractor did the Navy personnel that you dealt with have in mind—if any?

Colonel HEIN. Which contractor?

Senator COHEN. Yes.

Colonel HEIN. I do not know, sir.

Senator COHEN. I mean, did they have anyone in mind, or were they just saying that anyone was better than Wedtech?

Colonel HEIN. That was my opinion, yes, sir.

Senator COHEN. No. What was their opinion, the Navy personnel?

Colonel HEIN. The contracting office sort of agreed with me, but their hands were tied.

Senator COHEN. As I understand it in awarding the 1986 option to Wedtech, the Navy did impose some requirements about getting a new line of credit. Was that an adequate condition, in your judgment?

Colonel HEIN. I did not think that the line of credit made a lot of sense to me, because at that point they had originally talked about a credit line of something around $63 million. We knew that they had used around $39 million.

In the previous December or fall, right in that time frame, they had sold a large block of stock and took in something on the order of $40 million, and I was interested to find out if they were going to put that money in the company, or pay debts, or use that to further the contract, or was this going to go to some of the company officers or wherever this money was going. That is when I discovered the $35 million in debt they had at that time that they had withheld from us. Wedtech let it slip out by accident.

So with that information, I was very concerned now, because a small company like that, $35 million in debt, particularly considering all the cash that had been pumped into that company, it was going through—it might have been good money after bad. So I was really concerned about that.

Senator COHEN. So is it your testimony that Wedtech deliberately withheld information from Navy auditors? Is that fair? Unfair?

Colonel HEIN. Well, I do not know if you would say Navy auditors. We used our own personnel and DCAA. I do not recall any Navy auditors off the top of my head. But they had withheld the information from us, certainly.

Senator COHEN. There were several pre-awards done on the 1986 options?

Colonel HEIN. I think there were three, sir.

Senator COHEN. Is that unusual?

Colonel HEIN. Yes, sir.

Senator COHEN. What is normal for a pre-award survey before options are either granted or extended?

Colonel HEIN. Usually, you do a pre-award survey on those areas concerned—production capability, financial, and so forth—to determine do they have the technical expertise and the financial wherewithal to do the contract. And you do one.

Now, if later there has been some obvious error, some overlook of information, or some new information that comes in of such magnitude as to affect any of those areas, then you would open up the pre-award survey and go into that area where you found something changed.

Senator COHEN. So what is your conclusion in the fact that there were three pre-award surveys done?

Colonel HEIN. We were really pushed to get the thing through.

Senator COHEN. That was the justification; in other words, you are going to make this happen for this company and therefore, if it does not turn out right in the first pre-award survey, go back and do it again and hope it comes out right; if it does not come out the second time, go back——

Colonel HEIN. It was not exactly put that way, sir.

Senator COHEN. Well, tell me how it was put.

Colonel HEIN. It was put that perhaps you really had not looked at all this information correctly, and the company said that the information we looked at was not accurate, and they kept giving us more information; and like I mentioned earlier, we had three cash flow studies done during a one-month period.

Senator COHEN. During this time when these surveys were being done, was there any other contractor in the business for pontoon construction?

Colonel HEIN. I really do not know if there were or not, sir. I heard there was another one on the West Coast, but Captain de Vicq can probably answer that better than I can. I really do not know.

Senator COHEN. Captain?

Captain DE VICQ. Would you repeat that question, please?

Senator COHEN. The question was whether there were any other contractors capable at that time of producing the pontoon—at the time they were going through the pre-award surveys?

Captain DE VICQ. For the 1986 option?

Senator COHEN. Yes.

Captain DE VICQ. Well, of course, I was not there at that time, but before I left, my recommendation was that a contractor identified on the West Coast could probably undertake a significant portion of the work.

Senator COHEN. On the West Coast?

Captain DE VICQ. Yes, sir.

Senator COHEN. That is all I have, Mr. Chairman.

Thank you.

Senator LEVIN. Thank you, Senator Cohen.

Just a couple questions. Senator Cohen asked you a question about those 1985 options, Captain, and I just want to go through this with you again to make sure we are right.

There was a memo that you wrote in February of 1985, which I asked you about, in which you said the real windows to drop the 1985 options were missed last fall.

Captain DE VICQ. That is correct.

Senator LEVIN. And then I asked you the following question—see if my summary is correct—that you had recommended the previous fall that they not exercise the 1985 options——

Captain DE VICQ. That is correct.

Senator LEVIN [continuing]. But by the time February came, it was then too late for the reasons you gave. Is that correct?

Captain DE VICQ. That is correct.

Senator LEVIN. All right. And a question of both of you. There were some real health problems and safety problems, environmental problems, at the plant, and inspectors were even threatening to leave, as I understand it; your people, in other words, were threatening to leave. And there was a threat to report that plant to the EPA, I gather—or there may have been a threat. Did either of you actually ever file a complaint against Wedtech with the EPA?

Captain DE VICQ. I certainly did not.

Colonel HEIN. No, sir, but I remember the incident.

Senator LEVIN. Pardon?

Colonel HEIN. I remember the incident, but we did not.

Senator LEVIN. Neither one of you actually filed it; is that right?

Colonel HEIN. No, sir, I do not remember any threat.

Senator LEVIN. Was there a threat to file such a complaint?

Colonel HEIN. I do not remember any threat. I remember that our safety man came back and told me the conditions that he felt were pretty severe and we ought to pull-out our people.

Senator COHEN. With respect to your opposition to the 1985 options award, how did you express that?

Colonel HEIN. My opposition? I thought the company was incompetent, that they could not produce it.

Senator COHEN. Oh, I understand that, but how did you express it?

Colonel HEIN. Well, I talked to the Navy people, the contracting people, about it, and told them what I——

Senator COHEN. Did you put it in writing?

Colonel HEIN. I do not recall if I did or not, because you know, we almost talked to them on a daily basis; a lot of times, they had come down to the place and were physically there. We had a lot of meetings, an awful lot of meetings with them.

Senator COHEN. Did you make a record of the Navy personnel with whom you talked who were opposed to the 1985 options award? Did you make notes about with whom you had talked in terms of the Navy personnel?

Colonel HEIN. No, sir, I did not keep any notes.

Senator COHEN. So you do not have any record, then, to pass along to your superiors, as such, in terms of your opposition to the 1985 options?

Colonel HEIN. I had a lot of notes I kept. I have been trying to get a copy of them. They have finally mailed them to me, and they are sitting at the post office, I understand, back home. I will try to go back and look, because the 1985 option was so long, I have forgotten a lot of the details on that.

Senator COHEN. Well, if you can get those notes, I think it would probably be helpful for us to review with you.

Colonel HEIN. Yes, sir.

Senator LEVIN. Will you supply all those notes to the Committee?

Colonel HEIN. Yes, sir.

Senator LEVIN. You both have been very cooperative.

Just one question on that third survey, so-called. As I understand it, you participated in the first two surveys, and they came out negative for Wedtech.

Colonel HEIN. Yes, sir.

Senator LEVIN. And you were told to keep your hands off the third survey; is that correct?

Colonel HEIN. Well, it was taken out of my hands, sir.

Senator LEVIN. It was taken out of your hands, the third survey.

Colonel HEIN. Yes.

Senator LEVIN. So you did not participate in the third survey?

Colonel HEIN. No, sir. I sort of watched it from the sidelines.

Senator LEVIN. Thank you both very much for your testimony. You are both excused. We may have some additional questions for the record for you both, but other than that, you are excused at this time.

Colonel HEIN. Thank you so much.

Senator LEVIN. Our next witness is Henry Wilfong, who is the former Associate Administrator for Minority Small Business of the Small Business Administration.

Mr. Wilfong, now that you are seated, we will ask you to stand up and raise your right hand.

Do you swear the testimony you are about to give is the truth, the whole truth, and nothing but the truth, so help you, God?

Mr. WILFONG. I do.

Senator LEVIN. Mr. Wilfong, you may proceed. We have a written statement of yours, and you may summarize it, if you would, but proceed as you wish.

TESTIMONY OF HENRY T. WILFONG, JR., FORMER ASSOCIATE ADMINISTRATOR FOR MINORITY SMALL BUSINESS, U.S. SMALL BUSINESS ADMINISTRATION [1]

Mr. WILFONG. Mr. Chairman, it is an honor for me to appear before you. But I appear with mixed emotions.

Naturally, I am pleased that my input may help Congress in doing its job, but I am extremely concerned that what is happening with Wedtech and the 8(a) program does not cause many to be hurt because of the actions of a few.

My chief concern about the Wedtech incident is that I have been involved with black capitalism or minority business enterprise since the late sixties or early seventies, and over the years, I have observed that almost invariably, when these programs are abused, it is by non-minorities. And each time, the cry for reform causes the program to be so changed that minorities could no longer benefit from the program as they ought to.

In other words, we have a statement or an expression: "They steal the bacon, and we get the blame."

One of the things that I want to note as an aside is that it is interesting to me that in the recount of the Wedtech instances, minorities were not involved, and that even, as a matter of fact, minorities may have been removed to allow programs or persons to be put in who would "play ball." And now comes Wedtech.

What they purportedly did at Wedtech is criminal in nature. It has little to do with the 8(a) program. At Wedtech, they stole money from the corporation, they purportedly bribed public officials, and they lied to SBA. None of these acts were approved programmatic action.

So why the call for "program reform"?

The things that happened inside SBA are cause for concern. But are they things that require program reform? There were a number of irregularities that I observed at SBA as relates to Wedtech and the pontoon project. In summation, though, I think that those irregularities tend more to be of a people nature than a programmatic nature.

Those listed irregularities that I observed were, first, number one, there were two search letters from the same Region. Number two, there was no apparent programmatic reason for the issuance of the second search letter. Number three, the effect was a "holding period" of confusion that delayed the timing of a decision on a contractor. Number four, the confusion allowed Wedtech to cure its problems with the SEC and SBA rules and all of a sudden become eligible again to receive an 8(a) contract. Number five, as the Associate Administrator for Minority Small Business Capital Ownership Development, I did not sign Wedtech's "bridge letter"—"bridge letter" as to extension—nor Wedtech's "extension" letter to remain in the program. Number six, the little firm from San Francisco, the subject of the second search letter, had never before done work of any magnitude, and never did any since. It is almost as if they were chosen as a stalking horse for Wedtech. Number seven, the AAMSB/COD, myself, did not select Wedtech; someone else did. If we had stayed within the system that we normally used, and the rules and regulations prescribed, Wedtech would not have gotten this contract.

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[1] See p. 178 for Mr. Wilfong's prepared statement.

I have a concern about the kinds of political pressures. I see two kinds of political pressure that may be used in the 8(a) program. There is a good one and there is a bad one. The Wedtech case, I believe, gives examples of both.

On the one hand, you have an honored, distinguished United States Senator, leading an effort to bring the pontoon contract into the 8(a) program. His goals are honorable. He would like to increase employment in the State, and he would like to support the minority business program that his President so strongly supports. Supporting his efforts, you have a host of local government types who lobby the minority small business shop at SBA heavily.

Additionally, you have an excellently performing 8(a) contractor who is not at all hesitant about telling you and showing you what an excellent track record they have. They almost overwhelm you with information. They have a righteous cause, and they act like it. That is all right. I think this kind of pressure is good. We are there to serve our constituents, and I think it is okay for them to remind us in these kinds of ways.

On the other hand, there is another kind of pressure that I find uncomfortable if not totally objectionable. Those of us who are sensitive to it can often feel it, though you do not see it. It is insidious, innocuous, it is usually on you before you see it, and it can often do you serious harm.

This was pretty much what happened with Wedtech. The pressure at my level, at least, was pretty much unseen. It was brought by insinuation rather than directness. You sensed it rather than felt it. It is like a linebacker blindsiding you. Wedtech pretty much surfaced by others being eliminated.

Although it should have been my responsibility to select the contractor for the pontoon contract, I did not select Wedtech for this award. As a result of weird occurrences and circumventions of SBA rules and regulations, they ended up with it.

To this day, I do not clearly understand exactly how it happened. I felt at the time, and still feel, that the decision was not fairly nor properly made. I felt that we suffered from the effects of the Hispanic agenda. That was the effort to send a message to the Hispanic community to secure votes for the President in the 1984 election.

And evidently now, after hearing testimony here and reading a number of things since your invitation to appear here, I think that there was something that may be even more evident than that, and that was money.

What went wrong with the pontoons at Wedtech?

The basic problem as I see it is that there was an intervention of outsiders, outside the minority small business program, into the programmatic process.

Point: Why was the pontoon treated so differently than other 8(a) projects?

Point: The AAMSB/COD tried to keep it on track and put it to bed quickly and smoothly.

Point: The AAMSB/COD did not ask for help from upstairs, but got plenty of it.

Point: The AAMSB/COD was assured that the pontoon contract would be handled according to our rules and regulations, "with broader participation from 8(a) firms across the country".

Point: It became a circus of sorts, with Wedtech ultimately winning out.

The result was that Wedtech "got the girl" at a dance they were not originally invited to.

How do we avoid Wedtechs in the future?

First, please do not destroy the program and thus the future opportunity of a host of law-abiding citizens who deserve their chance at the American dream. Remember that what they did at Wedtech and at SBA was outside the normal, approved programmatic channels.

You do not, in my estimation, have to create a lot of new safeguards, rules and regulations; you have good ones. Just make sure they are enforced and followed. What we had at Wedtech was a people problem. That is the toughest one to deal with. You have got to get good, dedicated people, put them in place, then support them when they do their job, according to the prescribed procedures.

I am glad that your Subcommittee is here today, Mr. Chairman. Hopefully, questions and points we raise will cause persons in responsible positions at SBA to more faithfully discharge their responsibility.

I hope that the Senate Small Business Committee will monitor the SBA a little more closely. This, I feel, could go a long way towards keeping the integrity of the program intact.

I appreciate this opportunity to appear before you, and I would be very pleased to answer any questions you may have.

Senator LEVIN. Mr. Wilfong, we thank you for your testimony and for appearing here today.

In your statement, you note that you did not select Wedtech, somebody else did. Now, you were the head of the 8(a) program; is that correct?

Mr. WILFONG. Right. Yes, sir.

Senator LEVIN. You also refer to the intervention of outsiders from outside of your office into the selection process. Who were the outsiders who intervened in the process?

Mr. WILFONG. Basically, it all goes back to the Administrator. The Administrator was the only person who outranked me at SBA. I was the head of the 8(a) program, but I was directly answerable to him.

Senator LEVIN. And the Administrator was——

Mr. WILFONG. Jim Sanders.

Senator LEVIN. All right. You also state that you did not ask for help from upstairs, but got plenty of it. Can you explain what "upstairs" means?

Mr. WILFONG. Well, MSB is on the sixth floor at SBA; the tenth floor is the Administrator's office. We used to refer to it in that way. But "upstairs" meant the Administrator's office.

Senator LEVIN. And what kind of "help" did you get from upstairs?

Mr. WILFONG. Well, the decision to have a broader representation of 8(a) firms sounded good to me, but I did not select that.

The two search letters that had gone out, one search letter was from a firm, Univox of California; the first search letter had gone out, and they had gotten the support of Senator Paul Laxalt. Another firm out of San Francisco, Lee Engineering, there was supposed to be a second search letter sent for them, and I think it subsequently was.

My decision was that the first search letter under SBA rules and regulations should have been honored, particularly since it seemed that the Senator had the most to do of anybody in causing the decision of the Navy not to award this under 8(a) to be turned around. In effect, that meant that Univox had self-marketed the requirement, and under the rules and regulations of the 8(a) program, should have been selected as the contractor—which is what I did. In later discussion with the Administrator's office, I had no problem with there being a broader representation or having subcontractors, but I felt that was the problem for the contractor to decide.

Senator LEVIN. Now, in your interview with our staff, you stated that you got pressure from the tenth floor on the contract.

Mr. WILFONG. Right.

Senator LEVIN. What kind of pressure did you get from the tenth floor?

Mr. WILFONG. Well, the kind of pressure was that we were not allowed to put the award to bed. We were not allowed to select the company on the West Coast as the contractor. It was thought, after a meeting of the Regional Administrators, I was told, that this was too large for any one contractor and should be spread around.

It is interesting to me that Wedtech ended up being the one contractor, when that was contrary to the stated purpose. I did not agree that it could not be handled by one prime contractor with a number of subcontractors. My position was always that we, SBA, should select the contractor and then allow that prime contractor to deal with their subcontractors. But the help I got was in not allowing us to put that contract to bed, that award to bed, and to have it decided in some kind of way that there be a number of contractors selected.

Senator LEVIN. Were you told by the tenth floor basically not to make waves?

Mr. WILFONG. No, I was not told not to make waves. I was told to tell the contractor from the West Coast not to make waves.

Senator LEVIN. All right. And that was Univox?

Mr. WILFONG. That was Univox.

Senator LEVIN. And did you tell them that?

Mr. WILFONG. I did.

Senator LEVIN. You also, I believe, told the Subcommittee staff that you had the impression that Mr. Sanders had worked this thing out with Peter Neglia, who was the New York Regional Administrator; is that correct?

Mr. WILFONG. He is one of the Regional Administrators that——

Senator LEVIN. No, but did you tell the staff that you had the impression that Mr. Sanders had worked out this change with Mr. Neglia?

Mr. WILFONG. I think what I said was that Peter Neglia probably had a large influence on it.

Senator LEVIN. And Mr. Moreno, of Wedtech, has told the Subcommittee in a sworn affidavit that he had regular conversations with Mr. Neglia about this contract. According to Mr. Moreno, Mr. Neglia told him that Sanders had agreed to support the set-aside of this contract as long as Wedtech shared it.

Is this the kind of arrangement that you heard about?

Mr. WILFONG. Is that "shared it" with other contractors?

Senator LEVIN. Yes.

Mr. WILFONG. That is what they suggested to me, that the contract would be shared with other contractors.

Senator LEVIN. Did you ever take up the question of the award of the pontoon contract to Wedtech directly with Mr. Sanders?

Mr. WILFONG. On more than one occasion.

Senator LEVIN. And did you ever question him about the role and the influence of Mr. Nofziger and Mr. Bragg on behalf of Wedtech?

Mr. WILFONG. I did.

Senator LEVIN. What did he say?

Mr. WILFONG. There was a particular incident that happened one Saturday. I was working in my office, and I got a call from John Grayson, the President of Univox. He indicated to me that he had heard that the fix was on, and that there was not going to be a sharing of the contract, that there was not going to be a second phase that would go to the West Coast, but that Wedtech would end up getting all the contract, and that Lyn Nofziger was the person who had been primarily involved with that, and that he, Nofziger, had indicated evidently to Grayson that Grayson had no chance of winning that contract. And he mentioned other names. I felt that I was compelled to explain to him, and I did, that he was talking on a Government phone, and that I was in my official capacity, and whatever he said to me—not only what he had already said, but what he said after this—was going to have to be reported, and he said he had no problem with it. And I did report to Jim Sanders almost word-for-word, as best I could recall—I took notes at that time—and indicated to him that there was bribery, accused bribery, influence brought upon people including inside SBA about this Wedtech project. And Jim was very blase about it. His response was that we do not deal in rumors and, after all, he—meaning Lyn Nofziger—is a private citizen.

Senator LEVIN. Now, I believe you have indicated to the staff that the selection process for the contract was handled first by Joe Bennett and later by Robert Saldivar; is that correct?

Mr. WILFONG. It was a committee—there were two people, I think—Aubrey Lewis was involved in there, too. Bob Saldivar, as my Deputy, was the staff member most concerned from the MSB with that, after a period of time.

Senator LEVIN. Who was it who made the final selection of Wedtech as the SBA's candidate for the pontoon contract?

Mr. WILFONG. It must have been Jim Sanders.

Senator LEVIN. And who selected that committee that you just described to do the recommendation?

Mr. WILFONG. That was Jim.

Senator LEVIN. Sanders?

Mr. WILFONG. Yes.

Senator LEVIN. And did you participate in that process?

Mr. WILFONG. The process of selection or the process of evaluation?

Senator LEVIN. Selection of Wedtech.

Mr. WILFONG. I think to this extent, I had no problem with it, but Senator, I did not want that process in the first place. I did not think there needed to be a committee or a selection process set up. I had made that selection. But I did to that extent, since they had determined that it was better to spread it around, better for the program to spread it around, I did participate to this extent that I thought the two of them were two people who were the better people to be chosen for that.

Senator LEVIN. And who were they?

Mr. WILFONG. Joe Bennett and Aubrey Rogers.

Senator LEVIN. Was it your understanding that Mr. Saldivar was involved in the process?

Mr. WILFONG. Yes. Bob Saldivar was my Deputy. And I think what had happened, the way Bob particularly had gotten assigned was that Jim Sanders, as the Administrator, felt that with my responsibilities and travelling as I did, with dealing with a number of things that we had to do that were so important, that I should have somebody designated to stand in for me if I was gone, and wouldn't it be good if Bob Saldivar did that. And I of course agreed to that, because that was Bob's job anyway, as my Deputy.

Senator LEVIN. I believe you told the Subcommittee—or our staff—that Mr. Saldivar began to meet with Richard Ramirez of the Navy even before he was assigned to handle the selection process.

Mr. WILFONG. Richard Ramirez was a Small and Disadvantaged Business Utilization specialist at the Navy, and he used to come over to our offices quite regularly. He had been coming over there before I came onboard.

So Bob and Ramirez would meet oftentimes, and I assume some of the time it was about the pontoon, because that was what was going on at that time. That was the largest thing we had going on at that time.

Senator LEVIN. Did those meetings take place even before Mr. Saldivar was assigned to handle the selection process?

Mr. WILFONG. Yes.

Senator LEVIN. And Mr. Bennett, who was a special assistant of yours as I understand it at the SBA, has told the Subcommittee that you learned of those meetings and were furious. Is that true?

Mr. WILFONG. Say that again, Senator.

Senator LEVIN. Mr. Bennett, who was a special assistant of yours at the SBA, told our Subcommittee staff that when you learned of those meetings that you were furious. Is that true?

Mr. WILFONG. I was not furious just because of those meetings. I was furious about a number of things, and I think that those meetings had a part to do with that. It was like I felt something was happening, could not see it totally, but it seemed to be going away from us. The decisionmaking seemed to be going away from MSB, and——

Senator LEVIN. That being your 8(a) office?

Mr. WILFONG. The 8(a) office, right.

Senator LEVIN. And that is where the decision belonged.

Mr. WILFONG. That is where the decision belonged.

Senator LEVIN. And you were furious about a number of things, indicating that the decision was being taken away from your office?

Mr. WILFONG. Right.

Senator LEVIN. And those meetings that you just described were just part of that?

Mr. WILFONG. Was just a part of it.

Senator LEVIN. I have a few more questions, but I think we will alternate here a little more.

Senator Cohen?

Senator COHEN. Thank you, Mr. Chairman.

Mr. Wilfong, you raised the issue about Univox, and that company was supported by Paul Laxalt?

Mr. WILFONG. Yes, sir.

Senator COHEN. When we talk about political influence, if you had to weigh the political influence of Senator Paul Laxalt versus those Senators in New York, which would you give greater weight to?

Mr. WILFONG. Senator Paul Laxalt versus the Senator in New York?

Senator COHEN. Right.

Mr. WILFONG. Paul Laxalt.

Senator COHEN. The point is that in this particular case, you had competing political interests and influence.

Mr. WILFONG. Yes, sir. But I never talked to any Senators from New York; they never talked to me.

Senator COHEN. I understand. But you pointed out before that it is fine for a Senator to lobby on behalf of jobs in his district or State, and indeed we all appreciate that. But the point I want to make is that what you had here was several Senators involved, Paul Laxalt being perhaps the more prominent because of his relationship with the President; so that if political pressure per se were the only factor that was involved in the award of this particular contract, one would logically assume the contract would have gone to the West Coast; right?

Mr. WILFONG. Yes, sir, but——

Senator COHEN [continuing]. Based on that fact alone.

Mr. WILFONG. Yes, based on that fact alone. But I think timing is important. You mentioned the Senators from New York. At the time we started this, Wedtech was not even in the picture, New York was not in the picture—nobody was in the picture except California.

Senator COHEN. Now let me shift it a bit. We have other factors taken into account, I assume. We have, for example, perhaps, a campaign pledge—"If elected President of the United States, I am going to do something for this depressed area in New York." Now, I know that President Carter probably campaigned in the same State, standing in the same ruins of an area, saying, "We have got to bring business here." That is not highly unusual, and I assume President Reagan also made a similar pledge, "I want to help this particular region." And you find nothing improper in terms of using the 8(a) program per se in order to stimulate business in a depressed region which might be dominated by minorities—I mean, you would favor that?

Mr. WILFONG. Yes, sir.

Senator COHEN. So we started out with something that is quite, I think, normal or regular within the spectrum of our political system, namely, using position to try and bring jobs to a region—nothing wrong with that.

Mr. WILFONG. Yes, Senator, but we did not start out that way, though. I think that is an interesting point. That came later. Now, what you described, I would not object to at all, and I think that is——

Senator COHEN. We do not object to that, either, I think.

Mr. WILFONG. But then, why was the decision around for this to be interjected?

Senator COHEN. I am going to get to that. I am going to get to that in a moment. I am just saying, starting from its inception, at least, it would fall within the bounds of normal political pull and tug, saying, "We are fighting for jobs in this particular region," and you have one Senator lobbying for jobs on the West Coast, perhaps, others on the East Coast; you have got a President who is campaigning or campaigned on a pledge to bring jobs to a particular region.

So everything so far would be within the normal bounds of the political process—fair enough?

Mr. WILFONG. [Nodding head.]

Senator COHEN. Now, this case becomes somewhat different. I think you characterized it that people started bleeding the company per se, and it was not because of irregularities in the law itself, but rather, people taking advantage and exploiting the existing system.

I think your statement was a bit too categorical by saying that there is no need for programmatic changes. The question I had, for example, is whether you think that unlimited availability of BDE funds would be appropriate for participants in Section 8(a) programs?

Mr. WILFONG. Unlimited?

Senator COHEN. Right.

Mr. WILFONG. No, sir. What do you mean by "unlimited"?

Senator COHEN. I mean unlimited in the amount.

Mr. WILFONG. For any reason?

Senator COHEN. The amount. Don't you think there should be some reasonable limitations on how much BDE funds are used in the 8(a) programs?

Mr. WILFONG. Oh, yes, sir. I could not argue with that at all.

Senator COHEN. Okay. So perhaps there can be some maybe even programmatic guidelines or changes that might come out of these hearings to see to it——

Mr. WILFONG. Relative to BDE?

Senator COHEN. Right. There is a lot of discretion involved here. We had BDE funds going in substantial amounts, a major allocation, which was really inconsistent with what the past experience had been.

Mr. WILFONG. Not in the pontoon case, sir.

Senator COHEN. To Wedtech itself.

Mr. **Wilfong.** Okay. I think I read in the earlier contract, there was. But you see, that is one of the points that I would be concerned about. Of course, I could not argue with you that reasonable limits ought to be placed; I cannot argue with that. But then it becomes a matter of what is reasonable.

There was $3 million that I read in the Senator's statement that was awarded to Wedtech earlier. I do not know the particulars. That may or may not have been reasonable. But what I would be afraid of is that companies who could use it, who need it, who cannot perform a requirement and thereby upgrade themselves, might be penalized if we arbitrarily adjust it.

I think part of the thing that I am concerned about right now—I do not know if you know—but in the 1988 request, or the budgetary request for SBA for 1988, there is no BDE requested. We had $17 million at our disposal, but there is no BDE requested in the SBA proposal for 1988. And the Administrator's report on that was that the increase in the availability of financing and improved cash flow at the 8(a) firms made BDE unnecessary. Well, that is absurd.

So I think to one extent, I would agree with you that there ought to be some reasonable limits; but having zero is absurd.

Senator **Cohen.** All right. How about public stock offerings? Do you think a company that goes public and raises capital in the public sector by a public offering—should that be taken into account as to whether or not that company should still qualify under the 8(a) program?

Mr. **Wilfong.** Oh, definitely, it should be taken into account, but not necessarily preclude them from that. I for one, when I first came into the seat, was very pleased to have heard about—and that is the only thing I really knew about Wedtech is that they had sold 40 percent of their stock on the stock exchange, I think it was over-the-counter, and then subsequently went to the New York Stock Exchange. Now, as far as I am concerned, that is part of being mainstream. And what we hope to happen is these firms owned by socially and economically disadvantaged individuals can subsequently offer their stock for sale on the New York Stock Exchange.

I have no problem with that kind of thing, and I do not think that is what was the problem at Wedtech. I do not think the sale of the stock—I think some things that may have happened with the money after the sale may have caused it.

Senator **Cohen.** But that was a red flag that obviously was raised and either ignored or misrepresented in terms of a sham public transaction, and we can talk about that later.

Mr. **Wilfong.** Now, the sale—yes, sir——

Senator **Cohen.** But the sale itself should have raised some question, shouldn't it?

Mr. **Wilfong.** I do not see why the sale itself should have. I see it—it depends upon where you are sitting—I saw it as a positive. And if it had been that they had sold 40 percent of their stock—and that is what it was—had sold 40 percent of the stock, with the minority shareholders still retaining in excess of 51 percent, I would have seen no problem with it.

I guess to this extent, if you say the flag is raised that we have got to make sure that the minority owner still owns control, yes, sir, I would agree with that.

Senator COHEN. Now, did you approve a $200,000 grant in BDE funds for Wedtech to close the price differential between the Navy and Wedtech and—

Mr. WILFONG. I was reading the prepared statement from my Deputy. Evidently I did; I do not remember. But I do remember that in meetings, though, something that really kind of surprised me and amazed me, and that is part of where I became, as the Senator said, kind of infuriated by some things. They were prepared to go to the extent of $5 million of BDE for Wedtech to—for price differential. That was the only time that I had ever been aware of us being prepared to approve substantial price differential.

Subsequently, that BDE was not approved. But at one point they were prepared to approve that much BDE to Wedtech.

Senator COHEN. Well, were you aware that SBA had a policy that BDE funds were not to be used for closing price differentials?

Mr. WILFONG. I was aware that that was a policy in some places. Did you say that SBA had a policy?

Senator COHEN. I am asking you whether they had a policy that——

Mr. WILFONG. Some of the Regional Administrators did, Senator. I did not personally agree with that. I did not agree that—the rules and regulations say that one of the purposes for which BDE could be used is for price differential. When the Navy has a price that it feels is fair, when the contractor has a price that it feels is fair, and the two cannot come together, then in order to make a marriage, we are allowed to make up the difference in BDE. And I think that is a valuable tool, if used properly.

Senator COHEN. You had no problem, then, even though you were unaware that you had approved the $200,000 BDE grant for the reduction of the price differential; philosophically, you would have had no problem, had you known, or realized at the time?

Mr. WILFONG. Yes, sir. The only thing I would have had a problem with is that we seemed to treat Wedtech so differently than other contractors.

Senator COHEN. And I take it you were not aware at the time that Wedtech had already been granted substantial BDE funds on the Army engine contract?

Mr. WILFONG. No, sir.

Senator COHEN. You have cited a number of irregularities in this particular case, and I guess the question I have is whether the people within SBA questioned any of these irregularities along the way or whether they were pressured to ignore the irregularities from above, floor ten, the White House—in other words, did SBA realize there were a series of irregularities and ignore them, or were they unaware that the irregularities existed?

Mr. WILFONG. They were aware, because I brought it to their attention. For some reason, they chose to ignore them. For instance, the search letter—when I first heard about it, Senator, I did not know what a search letter was. That is where you ask for a requirement to be placed in the 8(a) program on behalf of the contractor. I did not know what a search letter was. And the Regional

Administrator from San Francisco, in taking me back to—shortly after I was in office, I was making a field visit, and on the way back to the airport, she asked me if it was okay to send out a search letter on behalf of this firm, Lee Engineering, for this $200 million contract, and I saw no problem with that.

When I got back to my office, I asked my staff what a search letter was, and they told me; and then they also indicated to me that there was a search letter already out on this requirement, and that this firm, Univox, of California had in fact had the support of Senator Paul Laxalt. And that, as you indicated, would have perked my ears up on hearing Paul Laxalt's name and his support for a firm.

I brought that to the attention of the people upstairs, and the fact that there was an irregularity, and there seemed to be no effect.

Each one of the things that I mention as irregularities here, I have at one time or another, sometimes very strongly, in a strong manner, indicated to the Administrator that these were irregularities that I thought were outside of the program, and that we should not do them.

Senator COHEN. Thank you very much, Mr. Wilfong.

My time is up, Mr. Chairman.

Senator LEVIN. As I understand it, Mr. Wilfong, Wedtech at one time was supposed to share the pontoon contract with Medley Industries of Philadelphia. In your interview with the Subcommittee staff, you stated that Wedtech used some kind of a "cute move" to get rid of Medley and to take the whole contract for itself. What was the "cute move"?

Mr. WILFONG. I understand that Medley—the way they got knocked out of the box was on some IG—Inspector General investigation relative to some irregularities which had been cleared up some while ago. But they resurfaced, and so consequently what happened is Medley was under investigation and could not be a part of that selection process. And so consequently, Wedtech remained as the lone contractor.

There was to be a later sharing, though, I understand, between not only Medley but including the firm from the West Coast. You asked me earlier about was I asked not to rock the boat. What happened was I was told to advise Univox president John Grayson that he would be a part of the second phase, so don't rock the boat.

And one of the things that John indicated to me—he was quite incensed when he called me on that Saturday—was that he had found out that that was not to be true.

Senator LEVIN. Now, Mario Moreno, who was the former executive vice president at Wedtech, told the Subcommittee that he was—or our staff—that he was actually sitting at a negotiating table with Mr. Medley when he received a phone call from Mark Bragg. According to Mr. Moreno, Mr. Bragg told him that he didn't have to worry about Medley anymore because some kind of investigation would make it impossible for Medley to participate in the contract.

Now, do you have any ideas as to how Mr. Bragg could have access to that information so that he could have called Moreno right while he was actually negotiating with Medley? Where would Bragg get that information?

Mr. **Wilfong**. Either from Lyn or from upstairs—either from Nofziger or from Sanders.

Senator **Levin**. Well, where would Nofziger get it from?

Mr. **Wilfong**. Jim Sanders, probably.

Senator **Levin**. You don't know where they got it from.

Mr. **Wilfong**. No. No, sir.

Senator **Levin**. I don't have any further questions. Thank you very much, Mr. Wilfong.

And we're going to put in the record at this time an affidavit of the attorney for Lee Engineering, another candidate for this contract that got knocked out of the box. There is some interesting material in that affidavit as well.[1]

We'll excuse you at this time. Thank you so much.

Our last witness today is H. Robert Saldivar, who is the former Deputy Associate Administrator for Minority Small Business at the United States Small Business Administration.

As I understand it, Mr. Saldivar, you were Mr. Wilfong's Deputy. Would you stay standing and raise your right hand.

Do you swear that the testimony that you are about to give will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. **Saldivar**. I do.

TESTIMONY OF H. ROBERT SALDIVAR, FORMER DEPUTY ASSOCIATE ADMINISTRATOR FOR MINORITY SMALL BUSINESS, U.S. SMALL BUSINESS ADMINISTRATION, WASHINGTON, DC

Senator **Levin**. Thank you.

You have a statement that you have submitted, and, if you would, we'd appreciate your summarizing that statement [2] so we can get right to questions, given the hour.

Mr. **Saldivar**. Mr. Chairman and members of the Subcommittee, I am H. Robert Saldivar, Director, Office of Procurement and Supply, Veterans Administration. Prior to January 1987 I served as Director, Office of Small and Disadvantaged Business Utilization, Department of the Navy, having been appointed to that position in October 1984. I also served as Deputy Associate Administrator for Minority Small Business, U.S. Business Administration [SBA] in 1983 and 1984.

You have asked me to testify on certain matters pertaining to the Wedtech Corporation based on my assignment to the above Navy and SBA positions. In your letter of September 16, 1987, you asked that I address four specific issues. Since I no longer have access to SBA or Navy files, my answers are based largely on my recollection of events that occurred as long as three or four years ago. Following are my specific responses to each of the issues.

Number one—decision to bring the pontoon contract into the Section 8(a) Program: Let me indicate that a number of companies from all over the country were seeking that requirement. At some point—I believe in September 1983—the SBA rejected the request for placing that requirement in the Section 8(a) Program.

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[1] See p. 368.
[2] See p. 186.

Following the formal rejection, the SBA administrator appealed that decision to the Secretary of the Navy, as provided by statute in Public Law 95-507. In response to that appeal, the Navy reconsidered its decision and offered the pontoon causeway systems requirement for the Section 8(a) Program.

Issue number two—the selection of Wedtech as the SBA's candidate for the pontoon contract: As I recall and as has been mentioned, there was a team of individuals assembled for the purpose of evaluating the various companies that were being considered for this program.

The two individuals that served on this test group were Mr. Joe Bennett, who served as Acting Associate Administrator, Minority Small Business in the summer of 1983, and Mr. Aubrey Rogers of the SBA New York Regional Office. These were the two individuals designated to undertake that responsibility.

There was considerable talk during this process of selecting several 8(a) firms for this project. In late January 1984, the SBA administrator issued a letter to the Navy designating Wedtech Corporation and two or three other firms as subcontractors for consideration on the pontoon causeway systems. I believe the two other proposed subcontractors were Medley Tool of Philadelphia, another Section 8(a) firm, and Advanced Marine, a small business from northern Virginia.

I was not involved in this selection process.

Issue number three—the negotiation of the pontoon contract between Wedtech, the SBA, and the Navy: The responsibility for negotiating this requirement, like other similar requirements, rests with the SBA regional office. In this case, the SBA New York region was involved, and the negotiations team was headed by Mr. Augustus Romain, Senior Contract Negotiator.

As I recall, the SBA negotiations team called the associate administrator, Mr. Wilfong, and I, his deputy, when an impasse developed over price. After the process of having those discussions, I believe some progress was made. But at the end of the discussions that ensued, the SBA and the Navy were still something in excess of $2 million apart.

When the Navy indicated that unless SBA was willing to cover the difference with BDE as provided in the Federal Acquisition Regulations the pontoon causeways requirement would be withdrawn from the Section 8(a) Program, we rejected the proposal to inject that amount of BDE. We instructed the SBA region to have further discussions with Wedtech.

At the end of those discussions we received information from the region that the Wedtech Corporation was willing to take the requirement, notwithstanding the over-$2 million gap, provided we approved $200,000 in price differential. This amount was finally approved by the Associate Administrator for Minority Small Business, Mr. Wilfong.

Issue number four—Wedtech's performance of the pontoon contract: The Naval Facilities Engineering Command [NAFAC] was principally responsible for monitoring and evaluating contract performance for the Navy on the pontoon causeway systems contract.

Technically, as has been already mentioned in these hearings, DCASR in New York was responsible for contract administration.

As Director of the Navy Small Business office, I also monitored progress on the contractors' performance because of the importance and magnitude of the project. I in turn kept the Office of the Assistant Secretary for S&L, Shipbuilding and Logistics, and the SBA informed on problems associated with performance on this contract. That was part of my responsibility.

The contractor experienced considerable start-up problems. The Navy assigned several technical personnel to provide assistance to the contractor. This practice was not uncommon in Navy support of small business development efforts. Of course, the Navy was also concerned about the pressing need for pontoon causeways to outfit MPS ships.

I also participated at this time in the development of a process to introduce limited price competition in future procurements of pontoon causeways. Having tested price competition on another Section 8(a) procurement, I proposed a competitive procurement between Wedtech and another Section 8(a) firm. The other firm, as has been mentioned previously, was Bay City Marine.

The Navy and the SBA supported this approach as an alternative to exercising the second option under the Wedtech contract. The second 8(a) firm was evaluated and found capable of participating in this competitive procurement. However, just prior to the release of the request of proposals—the RFP—the Navy determined that revised quantities for the required pontoon causeways did not justify starting the second production line.

Mr. Chairman, this concludes my prepared statement. I will be pleased to answer any questions you or any other members of the Committee may have.

Senator LEVIN. Thank you, Mr. Saldivar.

Senator Cohen?

Senator COHEN. Mr. Saldivar, as I understand your statement, the Navy was originally opposed to having the pontoon contract come under the 8(a) Program?

Mr. SALDIVAR. That is correct. Initially, they formally rejected the request.

Senator COHEN. And the Administrator of the SBA then appealed to the Navy and apparently persuaded them that they should bring the program under 8(a).

Mr. SALDIVAR. The Administrator of the SBA filed an appeal with the secretary of the Navy, yes.[1]

Senator COHEN. Now, were you involved with the award or the administration of the Army engine contract to Wedtech originally?

Mr. SALDIVAR. I was involved in some aspects of the small engine contract. Obviously, I had a high-level position in management of the Section 8(a) Program. And like many other projects of this type, especially those that were considered 8(a) pilot programs, I oversaw this contract as well as others.

Senator COHEN. Is it fair to say you were helpful to Wedtech in getting the Army engine contract initially?

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[1] See p. 212.

Mr. **Saldivar**. I was helpful to Wedtech like I was helpful to any other 8(a) company seeking support.

Senator **Cohen**. Now, at the time just before the award of the Navy pontoon contract—that would be the fall of 1983, just prior to having the 8(a) Program applied to the pontoon—how were they performing? How was Wedtech performing on the Army engine contract?

Mr. **Saldivar**. My understanding from reports received from the region is that although the company had experienced initial problems—and in fact there were problems associated with the project, some of which were not initiated by Wedtech; there were some problems associated with specifications, etc.—the company was making good progress in the production of its small engines.

Senator **Cohen**. So at least at that point in time, there was nothing that was raised that would cause you or others to question the ability of Wedtech to perform satisfactorily on the pontoon contract?

Mr. **Saldivar**. That is correct. Not only that, but the Navy, even before the small engine requirement—I'm sorry, let me rephrase that. Wedtech, before the small engine requirement, had performed quite satisfactorily on a number of defense contracts and received recognition for its performance on other contracts.

Senator **Cohen**. Now, were you involved in the decision to graduate Wedtech out of the 8(a) Program and to grant an FPPT extension to the company in the fall of 1983?

Mr. **Saldivar**. Let me explain or describe the process, if I may. Every company in the Section 8(a) Program has a fixed program participation term. In, I believe 1982, we implemented procedures to establish those fixed terms, and one of the provisions under this process—under this regulation, the new regulation—was to provide one extension to each firm in the Section 8(a) Program.

Now, because of the backlog in processing requests for extensions, initially we were providing what we called "bridge letters" to almost every Section 8(a) firm whose program participation term was coming to an end. In the case of Wedtech, we sent such a "bridge letter."

Initially, we had a request for extending the company's program participation by four years, as I recall. There were some concerns because the company had gone public, and there were questions as to whether or not the company could legally remain in the program. Those issues were resolved, and we finally were able to grant a modified request for extension of three years.

Senator **Cohen**. And you signed that particular request.

Mr. **Saldivar**. I signed that extension, yes, sir.

Senator **Cohen**. And at the time were you aware that Wedtech had gone public that year and issued stock?

Mr. **Saldivar**. It was brought to my attention that the company had gone public, yes, sir.

Senator **Cohen**. And in spite of that awareness, you decided to grant the extension under the circumstances.

Mr. **Saldivar**. Well, only after being told that the General Counsel had determined that the fact that Wedtech had gone public would not prohibit the company from remaining in the Section 8(a)

Program, provided other requirements of program eligibility were met.

Senator **Cohen**. I think you've indicated that the SBA was interested in selecting several 8(a) firms for the pontoon contract, but the decision was made for a single prime contractor for the pontoons. Who made the decision for a single contractor?

Mr. **Saldivar**. Well, I don't know that a decision for a single contractor was made initially. What the SBA indicated to the Navy initially was that they would like for Wedtech to take the lead and in addition have two, maybe more, subcontractors. I recall two subcontractors.

Senator **Cohen**. That was the SBA's position?

Mr. **Saldivar**. That was the SBA's recommendation—or actually what they requested the Navy to consider.

Senator **Cohen**. So there was no expression of concern on the part of SBA that giving it to a prime contractor—a single prime contractor with several subcontractors—in any way would have violated existing SBA goals of trying to spread the work around?

Mr. **Saldivar**. There was no such concern at the time.

Senator **Cohen**. Is my understanding correct that the SBA discourages—or has a procedure which precludes the acceptance of a contract which might cause harm—economic harm—to a company? In other words, loss contracts?

Mr. **Saldivar**. The SBA has what is now a regulation—that before taking a requirement into the Section 8(a) Program, the regional office has to make an assessment—an impact assessment—to determine that no other small business would be harmed by taking that requirement into the Section 8(a) Program.

Senator **Cohen**. What about the company itself? In other words, does SBA support a policy of having a small firm buy into a contract even though the original contract is going to prove to be an economic loss to the firm?

Mr. **Saldivar**. There is no such provision in the SBA regulations. However, at the time when this issue was being discussed, the way SBA was pursuing the program was to obtain not only the instant or current contract requirement, but the options as well.

Senator **Cohen**. Exactly. So was it contemplated in this case that Wedtech, even though the original contract could not be performed economically, got the contract at least on the premise that it would be the options that would bail them out, in essence, economically?

Mr. **Saldivar**. The premise was that as Wedtech, with the assistance of the SBA, of course, performed the contract, developed the necessary capability; and gained knowledge under the original contract, they would become more efficient and with the increased efficiency would perform much better on the options once the options were exercised.

Through that process, Wedtech expressed their view that they could recover some of the potential losses under the first part of the contract in future options.

Senator **Cohen**. But one of the problems we have is that's how companies buy into contracts, how they price contracts which they can't perform under with the anticipation they'll get the options. And if they don't measure up in their performance, then the SBA or the Navy or someone is faced with a problem.

Now we've got this firm involved. We've got start-up costs. We've got BDE funds involved. We've got all of this money invested. Performance is not too great, but as compared to what? Now we've got to make a value judgment choice of whether we give them the option even though their performance is not up to standard or par or what we'd like to see, because the option—or the alternative, I should say—is much worse.

Do you think that's an appropriate policy to have—to have companies buy in this fashion with the understanding that even though the initial contract can't be performed at a profit, the anticipation is we'll get the option and that will bail the company out. As such, they'll get better, more efficient, and that's the way in which we'll allow this company to perform.

Mr. SALDIVAR. Well, in retrospect, perhaps that was not a very prudent judgment. But on the other hand——

Senator COHEN. Is there any other case?

Mr. SALDIVAR [continuing]. On the other hand, you do have many instances where contractors, small and large, do come in with a somewhat lower price initially and hope to recover some of the potential losses through improved productivity, improved efficiency, and improved knowledge of the project. That does occur.

Senator COHEN. But you see, one of the problems I have is that then we have a company that's considered to be entitled to the additional options in order to justify being chosen for the original contract. It's sort of the reverse from what it ought to be.

Mr. SALDIVAR. Yes.

Senator COHEN. There is pressure within the agencies at that point, having made the commitment—that there is more pressure to stay with that firm.

In this case, we've seen that we found ourselves in a situation where the company—they said they were too small to compete with all of the giants and therefore were still entitled to be treated as a Section 8(a) company even though they had gone public. But they were too big, in terms of the Federal contracts they had had, to be allowed to fail.

So we got locked into a Wedtech, which wasn't performing on the pontoon contract and yet that some people felt at this point we've got too much money involved. It then became a situation where the money continued to flow.

Mr. SALDIVAR. It was a very complex situation.

Let me also state that at the time we were obviously exploring the possibility of obtaining the contract for Wedtech and other participants, we were under tremendous pressures from a number of sources for a number of reasons. One of the pressures was of course to meet the President's goal for awarding $15 billion in contracts over three fiscal years.

Now, under the traditional requirements we were previously pursuing for the program, we would never have achieved that goal. So we were under a mandate to explore obviously ambitious projects and to use innovation and creativity to obtain other requirements.

So with all that focus and all that attention and all those demands being placed on the program, we were taking some risks—no question about it.

Senator COHEN. Thank you very much.

Senator LEVIN. Thank you, Senator Cohen.

Mr. Saldivar, you've indicated that you got word that they were doing better on the Army engine contract at the time that they were being considered for the pontoon contract. Were you aware of the fact that at the time they were granted this pontoon contract that they had not delivered one engine and that they were overdue?

Mr. SALDIVAR. I was not aware of that, Mr. Chairman. I had to rely on the input from the region. And the reports I was getting from the region is that they were performing well. Even though they may not have delivered engines, I believe there were some modifications negotiated under the contract that among other things may have received revised delivery schedules.

Senator LEVIN. Were you aware when you approved their FPPT extension that—number one, their owners were now multi-millionaires following the public stock sale; number two, that there was a phony stock transaction in which no money changed hands, no payments were due for two years, the buyer didn't get possession of the stock, the price wouldn't be set until the purchase was made—if it ever was made. If the purchase weren't made there would be no penalty.

Were you aware of all those aspects to this phony transaction?

Mr. SALDIVAR. I was not aware of all those events.

Senator LEVIN. Were you—as I understand it, you had fairly regular meetings with Wedtech officers and representatives about their participation the 8(a) Program. And I gather you first met Mr. Mariotta and Mr. Moreno when you were working with them on their effort to get the Army engine contract. Is that correct?

Mr. SALDIVAR. That is correct.

Senator LEVIN. You were the Deputy Associate Administrator at SBA at the time they received the pontoon contract. You were Mr. Wilfong's deputy.

Mr. SALDIVAR. That is correct.

Senator LEVIN. And did you meet—well, let me ask a question before that.

As I understand it, you were officially assigned to work on the pontoon project for the SBA in January of 1984.

Mr. SALDIVAR. No, I don't believe I was ever officially designated to work on the pontoon causeway project any time.

Senator LEVIN. You were never officially assigned to work on the pontoon project?

Mr. SALDIVAR. No, I was not. My involvement in the pontoon causeway project at the SBA was obviously in my capacity as Deputy Associate Administrator. But I was working with many other projects.

Senator LEVIN. All right. Did you meet with Mr. Ramirez from the Navy, Mr. Denlinger, Mr. Mariotta, and Mr. Moreno in the lobby of a Washington hotel some time during 1983?

Mr. SALDIVAR. I don't recall that meeting.

Senator LEVIN. And do you recall meeting with Mr. Mariotta or Mr. Moreno in a Washington restaurant during 1983 or 1984?

Mr. SALDIVAR. I don't recall any specific meeting.

Senator LEVIN. Either in a restaurant or in a hotel lobby?

Mr. SALDIVAR. Well, let me perhaps rephrase my answer.

Wedtech Corporation was recognized by a number of Government officials and agencies. It was an outstanding minority business concern.

Senator **Levin**. My question has to do with a meeting. I'm not going into that. I just want to know whether you recall meeting first with Ramirez, Denlinger, Mariotta, and Moreno in the lobby of a Washington hotel in 1983 or 1984. That's my question.

Mr. **Saldivar**. I don't recall that.

Senator **Levin**. And you don't recall meeting with Mariotta and Moreno in a Washington restaurant during 1983 or 1984.

Mr. **Saldivar**. I don't recall that.

Senator **Levin**. Do you recall a series of meetings with Mr. Denlinger of the Latin American Manufacturers Association to discuss Wedtech's efforts to stay in the 8(a) Program and to get the pontoon contract? Did you meet with Mr. Denlinger frequently?

Mr. **Saldivar**. I had discussions with Mr. Denlinger. I don't recall specifically discussing that issue.

Senator **Levin**. You don't recall discussing Wedtech with Mr. Denlinger?

Mr. **Saldivar**. Well, Wedtech, yes, but not the specific issues of the extension of the company in the program for the purpose of getting this particular contract.

Senator **Levin**. How about to discuss the pontoon contract itself with Denlinger—do you remember that?

Mr. **Saldivar**. I believe at some point Mr. Denlinger may have brought that up in our conversations. Mr. Denlinger, as President of LAMA, approached me a number of times in discussing the needs of his members in the association in the LAMA—Latin American Manufacturers Association. And I am sure that discussion of Wedtech's interest in the project came up.

Senator **Levin**. The pontoon contract.

Mr. **Saldivar**. The pontoon contract, right.

Senator **Levin**. When did you first discuss the pontoon contract with anybody from Wedtech or from LAMA?

Mr. **Saldivar**. I believe I may have had discussions probably with both Wedtech and LAMA in meetings in probably late 1983.

Senator **Levin**. And also in 1984, then, they continued?

Mr. **Saldivar**. Yes. In 1984 especially when we got into the negotiations with the Navy.

Senator **Levin**. How late in 1983 would those first meetings about the pontoon contract with LAMA or with Wedtech have occurred? Would that have been in November, December, October? What——

Mr. **Saldivar**. I really do not recall the time frame.

Senator **Levin**. But you remember that in late 83 those meetings took place.

Where would they have taken place?

Mr. **Saldivar**. Well, they came to my office several times. Many minority small businesses came to visit me for any number of reasons—mostly to get help.

Senator **Levin**. But you specifically remember that in late 1983 those meetings took place, and you believe they took place in your office—about the pontoon contract?

Mr. SALDIVAR. Well, I recall having some contacts where this subject came up.

Senator LEVIN. In your office.

Mr. SALDIVAR. Probably in my office, yes.

Senator LEVIN. In late 1983.

Mr. SALDIVAR. Well——

Senator LEVIN. To the best of——

Mr. SALDIVAR [continuing]. I'm assuming of course late 1983, because no selection had been made at that time.

Senator LEVIN. Did you also have a number of private meetings with Mr. Ramirez in which the pontoon contract came up?

Mr. SALDIVAR. I believe Mr. Ramirez came to see me about a number of issues, including this one.

Incidentally, let me also say that a number of other contractors that were pursuing that requirement came to see me also about this subject.

Senator LEVIN. I understand. But Mr. Ramirez came to see you also about the pontoon contract.

Mr. SALDIVAR. Mr. Ramirez discussed the pontoon contracts with me.

Senator LEVIN. And would that also have been in late 1983 and early 1984?

Mr. SALDIVAR. Probably late 1983, because that's when—that was the height of SBA and Navy looking into the possibility of setting aside the requirement.

Senator LEVIN. Did you pay any visits to the Navy about the pontoon contract in late 1983?

Mr. SALDIVAR. I don't recall paying any visits to the Navy to seek the requirement, if that's the inference I can draw from your question.

Senator LEVIN. Are you saying that there were no meetings about the pontoon contract——

Mr. SALDIVAR. Yes, there were many.

Senator LEVIN. Well, let me just finish the question. Were there any meetings about the pontoon contract in which you participated outside of your office in late 1983?

Mr. SALDIVAR. Yes. There was a meeting hosted by the Navy to discuss the pontoon causeway requirement.

Senator LEVIN. In late 1983?

Mr. SALDIVAR. Probably late 1983, yes.

Senator LEVIN. Who was there?

Mr. SALDIVAR. There were many people.

Senator LEVIN. Do you remember any names?

Mr. SALDIVAR. I believe Captain de Vicq was in that meeting. I believe Wayne Arny may have been in that meeting. There were many other officers whose names I do not recall. There were about three people from the SBA.

It was a general discussion about, again, the requirement, the reluctance of the Navy, to discuss some of the concerns they had.

Senator LEVIN. Were you on the SBA Causeway Systems Management Team?

Mr. SALDIVAR. No, I was not. I don't believe or—I am not aware that we had such an organization.

Senator LEVIN. Well, on February 24, 1984, a memo was written to the Deputy Regional Administrator from the Office of the Regional Administrator that said the following—this is to Joseph Bennett, Deputy Regional Administrator: "The Administrator"—that would be the Regional Administrator of the SBA—"selected the following staff to serve on the SBA Causeway Systems Management Team: Joseph Bennett, Robert Saldivar, Jesse Quigley, Steve Bangs, and two others—Rogers and Romain." You don't remember anything about that.[1]

Mr. SALDIVAR. No, I don't recall that memo or that designation.

Senator LEVIN. Did you ever have any discussions with Mr. Wilfong about your meeting on the pontoon contract? Did you ever report to him as to what you had learned at these meetings?

Mr. SALDIVAR. Oh, yes. We had a number of discussions—he and I.

Senator LEVIN. So you reported to him about your meetings with Ramirez?

Mr. SALDIVAR. I reported when there was something significant, of course.

Senator LEVIN. But did you ever tell him about your meeting with Ramirez?

Mr. SALDIVAR. Well, the meetings were common knowledge. I worked almost next to his office. He knew who I saw, and if he had any concerns or expressed any concerns to me, I responded to any concerns he might have regarding that one matter or the content of any discussions I had.

Senator LEVIN. Did you make any recommendation relative to who should get the pontoon contract? Did you participate in making any recommendation to anybody?

Mr. SALDIVAR. No, I did not.

Senator LEVIN. You didn't have any ideas on the subject?

Mr. SALDIVAR. Well, I had ideas, but as I mentioned before, I knew that there were two people principally assigned to evaluate the companies.

Senator LEVIN. But why did Ramirez meet with you and talk about Wedtech, except that you would have a role?

Mr. SALDIVAR. Ramirez talked to me on a number of issues.

Senator LEVIN. Including Wedtech.

Mr. SALDIVAR. Including Wedtech.

Senator LEVIN. Now, why would he talk to you if you didn't have any role?

Mr. SALDIVAR. Because, number one, Ramirez was the Director of the Small Business Office of the Navy, the agency where the requirement was. And secondly, in my capacity as Deputy Associate Administrator, obviously he felt that I should—number one—be aware of the concerns of the Navy and the reasons why the Navy was reluctant to set aside the requirement and also to ask that whatever SBA did should be done in a businesslike manner in a fashion that makes sense.

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[1] See p. 231.

Senator LEVIN. Did you hear Mr. Wilfong's testimony this morning that you and Mr. Rogers and Mr. Bennett were on a committee?

Mr. SALDIVAR. I heard that.

Senator LEVIN. And that's not true?

Mr. SALDIVAR. Well, I don't recall that designation. I was not involved in the meetings Mr. Rogers and Mr. Bennett to discuss the evaluation of the company.

Senator LEVIN. You just simply disagree with Mr. Wilfong on that very critical point?

Mr. SALDIVAR. On that point, yes.

Senator LEVIN. Mr. Wilfong also testified that he felt Univox was the proper candidate for this contract. Were you aware of that? At the time, were you aware of that?

Mr. SALDIVAR. I'm aware of——

Senator LEVIN. Were you aware of that at the time?

Mr. SALDIVAR. I believe I heard him say that, at some occasion, yes.

Senator LEVIN. And who was pushing for Wedtech?

Mr. SALDIVAR. I believe that—as has been stated—there was interest on the entire program in the Administrator's office. Now, I don't know who was lobbying the Administrator's office——

Senator LEVIN. Who inside of the SBA?

Mr. SALDIVAR. Inside?

Senator LEVIN. Yeah. There must have been somebody there pushing for Wedtech.

Mr. SALDIVAR. Well, the New York Region was obviously promoting Wedtech.

Senator LEVIN. But nobody in the Washington office?

Mr. SALDIVAR. Well, obviously there were discussions about the merits of the various companies. I'm sure that in some of our discussions I may have indicated that among the companies being looked at, probably Wedtech was one of the stronger companies.

Senator LEVIN. Who would you have told that to?

Mr. SALDIVAR. I'm sorry.

Senator LEVIN. Who would you have told that to?

Mr. SALDIVAR. People on the staff, including perhaps Bennett and Rogers when they were in the office.

Senator LEVIN. So you remember telling Rogers and Bennett that they were one of the stronger companies?

Mr. SALDIVAR. I don't remember specifically saying that. I'm just saying that in our discussions, I could have very well made that statement——

Senator LEVIN. You might have——

Mr. SALDIVAR [continuing]. Or something similar to that.

Senator LEVIN. You might have said that.

Mr. SALDIVAR. Yes.

Senator LEVIN. Because you felt that.

Mr. SALDIVAR. Because I felt that among the half a dozen firms or so being looked at, Wedtech appeared to be one of the stronger companies.

Senator LEVIN. Now, if you didn't have any role in all of this, how would you know to make that analysis?

Mr. SALDIVAR. Well, I knew the companies who had had their regions submit what we call search letters—in other words, request for those companies to be considered for the program.

Senator LEVIN. But that wasn't any of your business, was it? You said you——

Mr. SALDIVAR. Oh, yes.

Senator LEVIN [continuing]. You didn't have any role in all of this.

Mr. SALDIVAR. Now, wait a minute. Most of those search letters came in even before the team was organized. The letters were being staffed by the appropriate office within the SBA. Now, obviously——

Senator LEVIN. Was there ever a letter for Wedtech?

Mr. SALDIVAR. I'm sorry?

Senator LEVIN. Was there ever a letter for Wedtech?

Mr. SALDIVAR. I don't recall a specific letter, but there must have been one.

Senator LEVIN. Isn't it fair to say, Mr. Saldivar, that you would have expressed an opinion probably that Wedtech was one of the stronger candidates to the key officials making this decision?

Mr. SALDIVAR. I could have.

Senator LEVIN. You could have, but you don't know that you did.

Mr. SALDIVAR. Well, I don't recall a specific time.

Senator LEVIN. How about a general time?

Mr. SALDIVAR. I may have made a general statement that I felt Wedtech appeared to be the stronger candidate of the ones being considered.

Senator LEVIN. That would have been to Rogers and to Bennett?

Mr. SALDIVAR. Rogers and Bennett perhaps. They were the principals looking at companies—yes.

Senator LEVIN. Well, to that extent you participated, didn't you?

Mr. SALDIVAR. Well, to that extent I guess it can be said that I participated, yes.

Senator LEVIN. As a matter of fact, there was no search letter from the New York Region. To that extent, you were involved, weren't you?

Mr. SALDIVAR. Well, I was involved in expressing my views, yes.

Senator LEVIN. Your statement here says, 'I was not involved in the selection of Wedtech."

You did express your views at least, didn't you?

Mr. SALDIVAR. Well, okay. To that extent, I guess you could draw the conclusion that I participated.

Senator LEVIN. As a matter of fact, you were Mr. Wilfong's deputy, weren't you?

Mr. SALDIVAR. Yes, I was.

Senator LEVIN. You were standing in in his stead, weren't you—when he wasn't in town?

Mr. SALDIVAR. Whenever he was out of town, obviously I was the acting——

Senator LEVIN. Would it be assumed that you'd be speaking for him when you expressed those views?

Mr. SALDIVAR. No. I never spoke for Mr. Wilfong. He was very capable of expressing his own views.

Senator LEVIN. Even though you were his deputy.

Mr. **Saldivar**. That is correct.

Senator **Levin**. You did not stand in his shoes when he wasn't around?

Mr. **Saldivar**. Well, I certainly carried out official responsibilities on his behalf, but I never spoke for him.

Senator **Levin**. Now, I understand you moved from the SBA to the Navy in October or November of 1984. Is that correct?

Mr. **Saldivar**. That is correct.

Senator **Levin**. And then in 1986 you moved from the Navy to the Veterans Administration. Is that correct?

Mr. **Saldivar**. That is correct.

Senator **Levin**. And that is where you are now employed?

Mr. **Saldivar**. That is correct.

Senator **Levin**. Did you ever discuss these career moves or any potential career moves with anybody from Wedtech or any representative of Wedtech?

Mr. **Saldivar**. I may have expressed my desire to make some moves. I know that after a certain point, having served in the SBA, I was looking forward to departing the SBA.

Senator **Levin**. And to whom would you have expressed those views—what Wedtech person or representative of Wedtech? You say you may have. Who would it have been to?

Mr. **Saldivar**. I may have. I don't know. I discussed this with a number of people.

Senator **Levin**. Do you remember discussing it with anybody representing Wedtech or who was working with Wedtech? Think back.

Mr. **Saldivar**. No, not to my knowledge. I don't recall that.

Senator **Levin**. We've got some memoranda here that Bob Wallach wrote. The first one is dated February 21, 1984.[1]

Here is what he says—that you, Mr. Saldivar, are the number two person in the 8(a) Program in Washington serving under Wilfong. He then says that "Saldivar was very instrumental in opposing Keenan on other matters. Causeway contract should be reassigned from Joe Bennett to Saldivar. If there is an opening in the top slot in the 8(a) position at SBA, Saldivar is the man. Transfer of the causeway contract to him would facilitate and guarantee its efficient undertaking without bias." That's what Wallach wrote in February 1984.

Now, on March 3, 1984 this is what Wallach stated: "Saldivar has been offered a position in San Francisco with the SBA, which he would very much like to have. This will, however, remove him from Washington and so leave the Washington office entirely in control of the people in California and Pittsburgh. He would stay in Washington if he could have Wilfong's position, which would require Wilfong moving on." [2]

And also in Mr. Wallach's files was a copy of a document that appears to be your resume. Now, do you have any idea how Mr. Wallach or anybody at Wedtech would have that knowledge that I just read about or have a copy of your resume?

Mr. **Saldivar**. I really don't know how Mr. Wallach obtained my resume.

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[1] See p. 336.

[2] See p. 343.

As I mentioned, at one time I decided to leave the SBA, and obviously I had applied for jobs in a number of areas. Also, when I spoke at public forums on many occasions, people would ask me for copies of my resume. My secretary would send them out almost anywhere.

I am a public official, and as far as I am concerned—my background information is public knowledge.

Senator LEVIN. How would he know that you were offered a position in San Francisco, which you would very much like to have? How would he know that? Did you tell him that?

Mr. SALDIVAR. No, I don't recall ever speaking to Mr. Wallach. In fact, if he came here today, I would not know him.

Senator LEVIN. But how would he know that?

Mr. SALDIVAR. I don't know. I cannot answer that.

Senator LEVIN. Do you have any idea why they would be discussing the question of whether you should be moved up to a more responsible position?

Mr. SALDIVAR. No, I cannot answer that question.

Senator LEVIN. Let me again ask you about this February 24 memo. On February 21, 1984, in a memo to his own file, Robert Wallach says, "The causeway contract should be reassigned to Saldivar." [1]

Three days later we have a memo from the U.S. Small Business Administration Regional Administrator saying that you had been selected—this is to Bennett—saying that you had been selected as part of a team to serve on the Causeway Systems Management.[2]

Mr. SALDIVAR. I don't recall that memo.

Senator LEVIN. No recollection.

Mr. SALDIVAR. Who was that addressed to? Can you tell me that?

Senator LEVIN. This was addressed to Joseph Bennett. No recollection.

Mr. SALDIVAR. No.

Senator LEVIN. Never remember being—by the way, you got a copy of that memo, according to the——

Mr. SALDIVAR. I don't recall that memo.

Senator LEVIN. Okay, Mr. Saldivar, you were again the SBA's Associate Administrator for Minority Small Business from 1983 and 1984, and from 1984 to 1986 you were the chief of the Navy's Small and Disadvantaged Business Utilization Office. Now, as I understand it, you monitored the negotiation and the performance of the pontoon contract after it was awarded to Wedtech. Is that correct?

Mr. SALDIVAR. One of my responsibilities was to monitor progress and performance on that project.

Senator LEVIN. I understand that you were offered money on behalf of Wedtech and turned it down. Is that correct?

Mr. SALDIVAR. At one point somebody did offer a gift, and I turned it down, yes.

Senator LEVIN. Who was it?

Mr. SALDIVAR. The individual who described that offer and made that offer was Mr. Denlinger.

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[1] See p. 336

[2] See p. 231.

Senator LEVIN. Who is the head of LAMA.

Mr. SALDIVAR. Who is the head of LAMA, yes.

Senator LEVIN. What did he—where was the offer made?

Mr. SALDIVAR. Actually, he gave me a ride to my apartment, as I recall.

Senator LEVIN. He gave you a ride to your apartment?

Mr. SALDIVAR. He gave me a ride to my apartment. He wanted to meet with me to discuss a number of issues.

And in the process of our discussion as we arrived at my residence, he indicated that certain of my friends wished to present me with a gift. And he went on to further describe the gift.

And I—well, I did tell him I would not even consider such a gift.

Senator LEVIN. And who was it that he said wanted to make the gift to you?

Mr. SALDIVAR. Well, initially, he was reluctant to say he just said "your friends", and he was reluctant to reveal the source of that. But later, in probing, it became clear that this was from some of the people at Wedtech.

Senator LEVIN. From some of the people at Wedtech?

Mr. SALDIVAR. At Wedtech, yes.

Senator LEVIN. Did he identify which people at Wedtech?

Mr. SALDIVAR. Well, I believe—I don't recall the people he mentioned. I believe that he mentioned Mr. Mariotta and Mr. Moreno.

Senator LEVIN. And did he tell you how much?

Mr. SALDIVAR. Yes.

Senator LEVIN. How much?

Mr. SALDIVAR. He indicated $12,000.

Senator LEVIN. $12,000?

Mr. SALDIVAR. Yes.

Senator LEVIN. And you were in a car when he made that offer?

Mr. SALDIVAR. I don't recall if we were still in the car or I had come out of the car and was on my way to my apartment.

Senator LEVIN. You may have been in your apartment by that time?

Mr. SALDIVAR. Well, no, I was not in my apartment. I may have been on my way to my apartment out of the car.

Senator LEVIN. I see. So the offer was made either in the car or after you left the car.

Mr. SALDIVAR. Or after I got out of the car and we continued talking for a few moments.

Senator LEVIN. Did he go into the apartment with you?

Mr. SALDIVAR. I don't believe he—well, I don't recall, quite honestly.

Senator LEVIN. And when was that offer made? What month?

Mr. SALDIVAR. I don't recall the time, quite honestly.

Senator LEVIN. Were you with SBA or the Navy at that time?

Mr. SALDIVAR. I was with the SBA at the time.

Senator LEVIN. It would have been 1984?

Mr. SALDIVAR. No—well, I really can't say. I just don't recall.

At the time, I dismissed it. I—obviously, in the SBA programs there have been a number of times when people indicate their interest of doing something for an individual working on this program.

Senator LEVIN. Did you think it was irregular for that offer to be made?

Mr. SALDIVAR. Well, it was irregular—sure.

Senator LEVIN. Did you report that offer to anybody at the SBA?

Mr. SALDIVAR. No, I did not.

Senator LEVIN. How come?

Mr. SALDIVAR. Well, number one, I never saw any money. Secondly, I didn't feel—I thought perhaps I was being felt out to see whether or not I was the type of person who would take money or anything else.

And I don't know if he would have followed through if I had been the type to even consider such an offer.

Senator LEVIN. Are you aware of the fact that there is a regulation that requires every employee of the SBA to immediately report to the SBA Inspector General any irregularity, either actual or suspected, arising in connection with the performance by SBA of any of its official functions? Were you aware of that regulation at that time?

Mr. SALDIVAR. Well, I wasn't aware of the specific regulation.

Senator LEVIN. But you didn't report that to anybody.

Mr. SALDIVAR. Well, no, I did not.

Senator LEVIN. And were you aware of the fact that it's illegal to offer a gift to anybody who is carrying out an official duty, as you were at that time for SBA? Are you aware of the law relative to——

Mr. SALDIVAR. Well, I am aware of the impropriety in anyone providing a gift or bribe or gratuity. I'm aware of that.

Senator LEVIN. Well, you were aware of the impropriety of that offer. I just want to ask you again that why is that you continued to deal with Wedtech, on behalf of whom that offer was made? How could you continue even to deal with them without reporting that gift? What was going through your mind?

Mr. SALDIVAR. Well, again, I did not receive the offer directly from Wedtech. It was, again, by an official of a trade association.

Senator LEVIN. Who represented—after you smoked him out—that it was on behalf of Wedtech.

Mr. SALDIVAR. Well, that was the conclusion. But again——

Senator LEVIN. Based on what he told you?

Mr. SALDIVAR. Based on what he said.

Perhaps I should have reported it. I didn't.

And as I said before, I never saw any specific money. I don't know whether or not there was actual intent to bribe me or not.

Senator LEVIN. Did you meet with Mario Moreno at any time after that offer was made?

Mr. SALDIVAR. Well, I met him some time after that.

Senator LEVIN. Did you ever ask him about that offer?

Mr. SALDIVAR. I don't recall a specific questioning about that offer—no.

Senator LEVIN. Why didn't you ask him about it? Why didn't you tell him that you thought it was improper, that you would have nothing more to do with him?

Mr. SALDIVAR. I don't know. I just didn't do it.

Senator LEVIN. We were told by Mr. Sanders a couple of weeks ago that if only they had known that the Wedtech people were a bunch of crooks, that SBA could have saved the Government a whole lot of embarrassment and the taxpayers a whole lot of money.

But you knew right there in that car. Somebody was purporting to offer you $12,000 in your official capacity, they were purporting to do it on behalf of Wedtech, and yet you didn't report it to the SBA Inspector General or the U.S. Attorney. There are some serious criminal laws involved here.

And again, try to tell us what was going through your mind as to how something that unusual, that irregular, that improper was kept by you for all these years.

Mr. SALDIVAR. Well, first of all, I did not take that indication of the offer seriously.

Senator LEVIN. Was it made in a laughing manner?

Mr. SALDIVAR. Well, it was made in a jovial manner. We weren't——

Senator LEVIN. Now it's jovial.

Mr. SALDIVAR. Well, it certainly wasn't like, "Mr. Saldivar, if you will do thus-and-so or because of what you have done, we'd like to have you take this money."

Senator LEVIN. How was it done, exactly?

Mr. SALDIVAR. Well, in the course of a conversation, Mr. Denlinger indicated, "You know, you've done an awful lot for a number of companies, and a lot of the people really feel a lot of gratitude for your accomplishments. And they'd like to be able to give you a gift for your many contributions."

And I stopped him right there and then.

Senator LEVIN. Well, where did the $12,000 figure come in?

Mr. SALDIVAR. Well, in that process—in that conversation, the amount was mentioned.

Senator LEVIN. And how did you smoke him out that this was Wedtech that were the people involved? Did you say, "Who were the people?"

Mr. SALDIVAR. Well, no, I think he later added that. I indicated, "Well, you know, I cannot take any money, especially—obviously, it would be totally improper for me as an official of the SBA to even consider the thought of taking any money."

Senator LEVIN. But how did you find out it was Wedtech?

Mr. SALDIVAR. Well, I think later he mentioned——

Senator LEVIN. Did you ask him, or did he just offer that information?

Mr. SALDIVAR. Well, I don't recall actually how it happened. In fact, I mentioned to him, "As you know—or you should know that it is very improper to even offer this kind of a gift, especially when you're talking about contractors doing business with the Federal Government."

Senator LEVIN. Did you sign that 8(a) extension for Wedtech before or after that offer was made? Do you remember?

Mr. SALDIVAR. I don't recall. You might have better information than I have.

Senator LEVIN. Did you meet with—you said you did meet with Mr. Moreno about the pontoon contract on a number of occasions.

Mr. SALDIVAR. No, not a number of occasions.

Senator LEVIN. How many occasions?

Mr. SALDIVAR. I don't know. I know that in some discussions we may have had concerning this or other subjects, he indicated of course his interest in being considered for the project.

Senator LEVIN. And after Mr. Ramirez—you have indicated you had a number of discussions with Mr. Ramirez. After he left the Navy, I understand he became a consultant to Wedtech. Is that true?

Mr. SALDIVAR. That's my understanding. Well, I don't know if it was to Wedtech. He became a consultant. I believe he may have done something for Wedtech.

Senator LEVIN. And did he ever call or meet with you after he left the Government?

Mr. SALDIVAR. I'm sure he may have called me.

Senator LEVIN. How about meetings? Did he meet with you after he left the Government?

Mr. SALDIVAR. I'm sure we met.

Senator LEVIN. And did the subject of Wedtech come up during those calls or meetings after he left the Government?

Mr. SALDIVAR. I don't recall any specific discussions concerning my actions with Wedtech.

Senator LEVIN. No, that's not the question.

Did the subject of Wedtech come up during any discussions that you had with Ramirez after he left the Navy?

Mr. SALDIVAR. The subject of Wedtech may have come up.

Senator LEVIN. And would he have raised the subject?

Mr. SALDIVAR. Well, he may have raised the subject.

Senator LEVIN. Well, you wouldn't have raised it, would you?

Mr. SALDIVAR. I wouldn't have any reason for raising it, no.

Senator LEVIN. So he would have raised it.

Mr. SALDIVAR. Probably he would have raised it.

Senator LEVIN. Did these conversations where he would have raised the subject of Wedtech come up when you were at the SBA or when you were his successor at the Navy or both?

Mr. SALDIVAR. I don't recall any specific discussion concerning my responsibilities with Wedtech.

In fact, as I recall, when Wedtech came up, it was in a general type of discussion such as the company having gone public, the breakthrough in the program by a public company having gone public. Those kinds of discussions may have occurred.

Senator LEVIN. After Mr. Ramirez left the Navy, you moved over to that position. Is that correct?

Mr. SALDIVAR. There was another individual who—actually, first let me state that when Mr. Ramirez indicated his intent to leave the Navy, he asked whether or not I would be interested. He thought that I should pursue that position if I had an interest. At that time I did not have any interest, and another individual was selected for that position.

That individual, I believe, served close to six months. And in that interim period I took a renewed interest in the Navy position. That's when I pursued that.

Senator LEVIN. So you—after about six months—took over that position.

Mr. SALDIVAR. I don't know the exact length of time——

Senator LEVIN. Approximately.

Mr. SALDIVAR [continuing]. But it was following Mr. Ramirez and the next Director for Small Business.

Senator LEVIN. So Ramirez left his position at the Navy. Then there was someone else who took that position on an interim basis for perhaps six months, and then you took the position.

Mr. SALDIVAR. That is correct.

Senator LEVIN. When you were in that position, you had some conversations with Ramirez in which Wedtech may have come up.

Mr. SALDIVAR. You mean before I went to the Navy?

Senator LEVIN. No, after you went to the Navy.

Mr. SALDIVAR. That's possible.

Senator LEVIN. And about how many conversations would you have had with Ramirez about Navy business after you were in the Navy position that he had left? About how many conversations——

Mr. SALDIVAR. One or two, at most. For quite a while there, I hardly ever saw Ramirez or talked to him.

Senator LEVIN. And would they have taken place shortly after you took that position?

Mr. SALDIVAR. I don't recall any specific time periods.

Senator LEVIN. What other Navy business would he have talked to you about when you were in that Navy position, other than Wedtech?

Mr. SALDIVAR. Well, I don't know that he necessarily called me to discuss Navy business. I knew him personally, and he may have called for other purposes other than to discuss Wedtech.

Senator LEVIN. But was there any other Navy business besides Wedtech that he had talked with you about?

Mr. SALDIVAR. I don't recall any other Navy business.

Senator LEVIN. Other than Wedtech.

Mr. SALDIVAR. Well, he may have discussed with me developments in the Navy Small Business programs, generally speaking. He still had an interest in the program.

Senator LEVIN. But other than talking to you about Wedtech when you were sitting in his former position, you don't remember any other specific Navy business that he talked to you about. Is that correct?

Mr. SALDIVAR. I don't recall—in fact, I didn't consider his making reference to Wedtech as being in connection with Navy contracts, if that's the conclusion you're trying to draw.

Senator LEVIN. Well, did you know that he was a Wedtech consultant at the time he——

Mr. SALDIVAR. No, I was not aware that he was consulting with Wedtech. Well, I knew that at one time he had considered doing something for Wedtech, but I was not aware that he was actually consulting to Wedtech.

Senator LEVIN. When he called you when you were with the Navy, you didn't know that?

Mr. SALDIVAR. No, I did not.

Senator LEVIN. Even though he was a friend of yours and he called you for social reasons?

Mr. SALDIVAR. Well, as I mentioned, I talked to him maybe a couple of times, but we did not have an ongoing social acquaintance.

Senator LEVIN. Did Mr. Ramirez ever come to your office when you were with the Navy?

Mr. SALDIVAR. He may have stopped at the Navy office at least on one occasion.

Senator LEVIN. When you were with the Navy?

Mr. SALDIVAR. When I was with the Navy.

Senator LEVIN. Did the subject of Wedtech come up then?

Mr. SALDIVAR. I don't recall that subject coming up. I believe it was strictly a social call. He came to say hello not only to me but to other members of the staff, since he had previously been the Director there.

Senator LEVIN. Captain de Vicq testified this morning that you told him that he was riding Wedtech too hard. Is that true?

Mr. SALDIVAR. I don't believe that is an accurate statement.

Senator LEVIN. You disagree with that?

Mr. SALDIVAR. I don't recall ever telling Captain de Vicq that I thought he was riding the company too hard.

Senator LEVIN. You deny it?

Mr. SALDIVAR. I deny that.

Senator LEVIN. The name of Richard Ramirez has come up here this morning, and let me now read a very brief statement for the record.

Before I read this, Mr. Saldivar, we will have additional questions for you for the record, but you're excused. If you'd like to stay there for a moment or leave, it's up to you.

Mr. SALDIVAR. Thank you very much.

Senator LEVIN. Thank you very much.

The Subcommittee appreciates today's testimony from the witnesses.

There is one other witness from whom we would have liked to have heard, but unfortunately this has proven impossible. Richard Ramirez was the head of the Navy's Small and Disadvantaged Business Utilization Office at the time the pontoon contract was awarded.

In this capacity, Mr. Ramirez played a role in the decision to set aside the pontoon contract and in the negotiations with the Small Business Administration over the selection of a contract. Mr. Ramirez signed several key Navy documents related to the contract.

He is also mentioned in a key memorandum written by Robert Wallach. In this memorandum, Mr. Wallach states, "I am advised of the following information: Secretary Pyatt's office from the Navy with Richard Ramirez writing the letter will issue a letter which will set out qualifications that really apply only to Wedtech."

Moreover, Mario Moreno, the former Executive Vice President of Wedtech, has stated to the Subcommittee that Mr. Ramirez reported to him regularly on how Wedtech's efforts to get the pontoon contract set aside were faring within the Navy.

For these reasons, the Subcommittee invited Mr. Ramirez to testify and to explain his role in the process that led to the award of this contract to Wedtech. Unfortunately, Mr. Ramirez has declined this invitation through a letter signed by his attorney, and this letter states in part the following: "This will respond to your letter of September 17, 1987. Please be advised that on the advice of counsel, Mr. Richard Ramirez will not appear voluntarily and if subpoenaed would invoke his constitutional right not to testify at your scheduled hearing on September 29, 1987."

With that statement, we will close today's hearing, and we will resume tomorrow at 9:30 in the morning. Thank you all.

[Whereupon, at 1:17 p.m., the Subcommittee was recessed, to reconvene Wednesday, September 30, 1987.]

OVERSIGHT OF FEDERAL PROCUREMENT DECISIONS ON WEDTECH

WEDNESDAY, SEPTEMBER 30, 1987

U.S. Senate,
Committee on Governmental Affairs,
Subcommittee on Oversight of
Government Management,
Washington, DC.

The Subcommittee resumed, pursuant to adjournment, at 9:45 a.m., in room SD-342, Dirksen Senate Office Building, Honorable Carl Levin (Chairman of the Subcommittee) presiding.

Present: Senators Levin and Cohen.

Staff Present: Linda J. Gustitus, Staff Director and Chief Counsel; Peter K. Levine, Counsel; Jack Mitchell, Investigator; Mary Berry Gerwin, Minority Staff Director and Chief Counsel for the Minority; Frankie de Vergie, Chief Clerk; and Richard Allen, Professional Staff Member.

OPENING STATEMENT OF SENATOR LEVIN

Senator Levin. The Subcommittee will come to order.

This is the second of two days of scheduled hearings by the Subcommittee on the award of the Navy pontoon contract to Wedtech in 1984, and options that were granted on that contract in 1985 and 1986.

The contract together with the options was the largest contract ever awarded in 8(a) history. From the testimony we received yesterday and the Subcommittee's investigation, the award of that contract to Wedtech was a prescription for disaster, but was approved because the SBA and the Navy did not say no to the power of well-paid, well-connected lobbyists hired on Wedtech's behalf.

We heard yesterday from the two SBA officials in charge of the office responsible for the selection of 8(a) contractors. The Associate Administrator in charge of the office, Henry Wilfong, testified that there were "a number of irregularities" in the selection of Wedtech for the pontoon contract and that the designation of a contractor was taken out of his hands. He stated, "If we had stayed with the system that we normally used, and the rules and regulations prescribed, Wedtech would not have gotten the pontoon contract."

Mr. Wilfong's former Deputy, Robert Saldivar, told a confusing story about his role in the selection of Wedtech and about his meetings with Richard Ramirez, the former head of the Navy's Small and Disadvantaged Business Utilization Office, both before and after Mr. Ramirez left the Government.

Mr. Ramirez was responsible for the 8(a) program for the Navy and a key player in issues of selection and performance on the pontoon contract.

In a December 1983 memo by Bob Wallach to his file, Mr. Ramirez is referred to as the person in the Navy who will "issue a letter which will set out qualifications for the pontoon contract that really apply only to Wedtech. In other words," Mr. Wallach wrote, "it should be terrific."

Mr. Saldivar admitted that Wedtech offered to give him $12,000 while he was still with the SBA and that he never reported this offer to anybody at the SBA or at the Justice Department, and continued involvement in decisions relative to Wedtech.

We also heard from Captain David de Vicq and Colonel Don Hein, the front line managers of the pontoon contract, about the experiences of the Navy and defense contract personnel who had the unenviable task of dealing with Wedtech on a daily basis.

Captain de Vicq described a meeting at which he presented arguments against the 8(a) set-aside of the pontoon contract, only to learn later that the decision had already been made. He testified to the "foreboding"—in his words—that he felt when the contract was set aside, and the "frightening"—again, his words—state of Wedtech's facilities when he first observed them.

Captain de Vicq and Colonel Hein told a disturbing story of a company whose quality control was horrible, whose production planning and progress reporting were woefully inadequate, whose housekeeping and safety practices were often appalling, whose overall performance was unacceptable in the beginning and substandard throughout the contract; a company who, despite trying to perform 1940s technology, could not meet its schedule, and could not even build a square box.

Colonel Hein described Wedtech's shoddy performance as including even the use of sledgehammers to correct major defects, and the arrogant, but apparently accurate, belief of Wedtech's officers and representatives that they could go over his head to reverse unfavorable decisions.

Both Captain de Vicq and Colonel Hein testified to the critical importance of timely delivery on this contract and Wedtech's repeated unrealistic promises to meet this requirement. In fact, the contract schedule provided six months for the delivery of the first pontoon, but Wedtech took more than a year.

We also heard that despite all these problems and the fact that Wedtech had not delivered one acceptable pontoon, the Navy went ahead and awarded Wedtech the sizeable 1985 options and, despite a later pre-award survey and financial analysis that showed a serious negative cash flow, awarded Wedtech the 1986 options as well.

The stark contrast between Wedtech's ability to perform and the actions taken by the SBA and the Navy to place and to keep the pontoon contract with Wedtech reminds me of the old saying: "Somebody up there likes me."

Today we will hear from Admiral T.J. Hughes, former Deputy Commander of Naval Operations for Logistics, who will testify as to his concerns about the decision to set aside this contract for performance by an 8(a) contractor and about the readiness problems that this decision caused for the Navy.

We will then turn to top Navy officials who did not follow the recommendations of uniformed officers, such as Admiral Hughes, Captain de Vicq, Colonel Hein, not to set aside the pontoon contract, not to award it to Wedtech, and not to grant Wedtech more than $100 million in options.

Substantial questions to be addressed include: Were top officials at the Navy aware of Wedtech's poor quality and late performance? Were top officials aware of the shaky financial condition that defense contract administrators believed would make it difficult for Wedtech to perform? Why did they overrule the recommendations of their subordinates? Were they aware, in the words of Bob Wallach, of Wedtech's "political ally structure"?

We look forward to these answers, and answers to other questions from today's witnesses.

I now call upon my good colleague, Senator Cohen.

Senator COHEN. Mr. Chairman, I would ask unanimous consent that a statement that I had prepared for yesterday's hearing be inserted at the end of your opening statement yesterday.[1]

Senator LEVIN. It will be so inserted.

Senator COHEN. And I welcome the witnesses.

Senator LEVIN. Thank you, Senator Cohen.

Before we continue I would like to insert an opening statement into the record from Senator John Heinz who could not attend today's hearing.

[Senator Heinz' opening statement follows:]

OPENING STATEMENT OF SENATOR HEINZ

Mr. Chairman, I welcome this opportunity to continue our review of the Small Business Administration's 8(a) set-aside program, and specifically the Wedtech Corporation.

In previous hearings on this matter, and today's hearing, the tragedy of Wedtech is brought to light. And it is a tragic story of lost opportunity. There are far too few successful minority-owned businesses, and very few at all in depressed urban areas; 28 percent of minority-owned small businesses fail each year. Efforts to promote minority-owned business are commendable. The Wedtech story is one such effort which went terribly awry.

What I hope we do not lose sight of in these hearings is who the real losers are here. They are those who might have had jobs, who might have received new opportunities, from the minority set-aside program. Congress' support for the program is based on its promise of help to the inner city and the minority businessman. That promise was broken in the Wedtech case.

I know what it is like to see that promise broken. I was deeply disappointed when a potential employer in my state was found to be overcharging the Government. I had hoped that that firm would provide urgently needed jobs in depressed North Philadelphia. It did not. The hopes which they raised were dashed hopes which are too few in the inner-city.

We need to know our contractors. We need to ensure that the hope of the 8(a) program will not be destroyed by the greed of a few.

Those of us who represent depressed inner-cities know the importance of job creation. We want minority-owned business to succeed. We want to see the hope of revitalization come through.

In addition, we need to ensure that our defense contractors are reputable. Our Nation's rapid development force, for which Wedtech's Pontoon causeways were intended, cannot be ambushed by the short-sightedness of those seeking to profit from our national security. In the instance of Wedtech, with their poor performance on the Army engine contract, one is dismayed by their continued involvement in contracts affecting our common defense.

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[1] See p. 6.

Any information this hearing can provide which will ensure that our national security is built upon dependable businesses, and that federal contracts go to reputable, effective minority small businesses, would be welcome indeed.

Thank you Mr. Chairman. I look forward to reviewing today's testimony.

Senator Levin. Admiral, will you raise your right hand and be sworn?

Do you swear that the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you, God?

Admiral Hughes. I do.

Senator Levin. Admiral, before you begin, I understand that you are now retired——

Admiral Hughes. That is right.

Senator Levin. And that you were the former Deputy Chief of Naval Operations for Logistics, and that you were responsible for the Navy Sealift Program, which included deployment of these pontoon causeways for pre-positioned ships.

Admiral Hughes. Yes, sir.

Senator Levin. You may proceed as you wish.

TESTIMONY OF VICE ADM. T.J. HUGHES (RET.), FORMER DEPUTY COMMANDER OF NAVAL OPERATIONS FOR LOGISTICS

Admiral Hughes. Thank you very much.

I have an outline for a statement, just to give some groundwork for any further questions, Mr. Chairman.

As you stated, I was the Deputy Chief, Naval Operations for Logistics from June of 1983 until August 1st of this year, when I retired.

My role was principally to be concerned about the requirements, the readiness, and the operational support of the Strategic Sealift.

The Assistant Secretary of Navy (S&L) and the systems commands were involved in contract and contract administration, so they were mixed in the business side, I was mixed in the output side to meet the operational requirement.

I will discuss the maritime pre-positioned ships (MPS) in a very short couple of paragraphs; if it is too much, please stop me.

The maritime pre-positioned ships consisted of 13 ships that we had procured, either from scratch—five of them were built from scratch, and eight of them were converted from other type ships that were available on the commercial market that were purchased by the Navy.

We made these up into three squadrons, and each of the squadrons was to be capable of supporting a marine amphibious battalion for backup support for 30 days, and they were to be prepared to unload in a benign, unimproved area. So that is why the lighterage is such a key point to the whole operation.

Senator Levin. Tell us what that "lighterage" is. Let me interrupt for a minute. We have seen the word a lot. What is "lighterage"?

Admiral Hughes. Lighterage is just the small craft that tote the material from the ship in to the shore where there is not an improved port for unloading directly by cranes, et cetera.

We had a set of ships out in Diego Garcia that were referred to as the Near Term Pre-positioning Ships (NTPF), and they were the forerunners that supported one of the marine amphibious battalions as well as the other services. That group consisted of about 18 ships.

One of the MPS, maritime pre-positioned ship squadrons—one of the three—was to replace the marine support that was at Diego Garcia in that NTPF contingent.

The first activation was scheduled for what we call MPS-1, the first squadron. We labelled it eventually MPS-1-T, because after the other ships were completed their building or conversion, we were going to shift the composition around slightly in order to optimize the configuration of the ships.

MPS-1-T was due to deploy and be loaded about the November and December 1984 time frame.

MPS-2, on the other hand, was a squadron that had to be out at a certain time in Diego Garcia, because the ships that were chartered out there were coming off-station and off-charter, those that supported the marine amphibious battalion. MPS-2 became very critical to get out to Diego Garcia at a given time.

MPS-3, the last of the three of them, was earmarked to be stationed in the Western Pacific, in the Guam/Tinian area.

The equipment for the three squadrons was reasonably on-track subject to various minor refinements and adjustments, as the ships came off the building or the conversion line. The only critical shortfall that we had at that point was the lighterage.

The objective is for these ships, in our plans, to off-load in 5 days in an unimproved discharge site. Meeting this commitment is heavily dependent on having the powered causeways available and what we call the side-loaded warping tugs. These were critical to that operation.

A fact bearing slightly on the matter is that the Army has a requirement for similar-type lighterage, and as a result of negotiations following a GAO report in about the 1982 time frame, we got together with the Army, and the Army agreed for us to be the contractor for them to buy the causeways that they required, so that we had standardization and some efficiency on the contracting.

So we assumed the responsibility also of buying the lighterage for the Army that was in their 1985 program.

In addition to outfitting the MPS Navy ships that I have just described, there is also a requirement for lighterage for amphibious assault ships, the ones that land right on the front end, to get their material ashore. They supply the material for the Marines immediately for about the first 5 days of an encounter in a very hostile environment. So some lighterage is required for that and then also for what we call Follow-on-Echelon, that takes on about the next 15 days of supply.

So we had other requirements for lighterage besides the MPS and the Army that I have described.

Units were also required for training, particularly since we were very heavily dependent on reserves. We do not have many of the people that will man this lighterage and unload these ships in the active forces; they are in the reserves, and they require a significant amount of indoctrination and training. And we needed lighterage for that purpose.

As deliveries slipped, we adjusted the sailing dates and the capabilities of the units. MPS–1–T, the temporary one that was in the Atlantic, slipped from about November 1984 until early autumn 1985. We did put them afloat with some makeshift lighterage, but the fleet commander, the unified commander, in official documents back to my office, complained that we were not meeting military requirements and complained to the Joint Chiefs of Staff that they did not have the capability of unloading in the time frame that was called for in their mission. They estimated that it would be up to about 20 days, and they did not consider it a great capability for an unimproved area.

Because of the slippage of the lighterage, which you have discussed already and have been exposed to, we changed the order and the priority. Instead of outfitting MPS–1 or MPS–1–T, the variant of it, we shifted to putting the first lighterage that we had available on MPS–2, because that had to be out to Diego Garcia at the end of 1985 with the other ships coming off the line. So our priorities changed because of that. And through this whole evolution, we have played yo-yo back and forth, trying to match when the lighterage was available to the assignment of the ships to various functions.

Concurrent with this, our operational tests and evaluation went on for the lighterage in this application. There was no great advance in the state-of-the-art, but there was a concern that in the application we were going to put it in, and the loading on these MPS ships, whether it would be a proper match. And we had some what I consider relatively minor complaints from the OPTEV for people to a point that we had to make some modifications to the lighterage when it was delivered. We caught the later batches of lighterage and made the modifications in the design, but in the earlier ones, we planned to take them off the ships that we first put them on, and as more lighterage came off-the-line, we would put the newer lighterage that was altered onto the ships, take the other ones back, and make modifications.

As you know, that never came to pass; we have never received the end of the material, that lighterage that we needed. So we have had to modify those craft—and they are mostly for minor safety and operational reasons. We have had to do it on a catch-as-catch-can basis, and it has been an expense to us.

Because of this slippage, and after our first knowledge that Wedtech was going to get this contract, as this slippage came about, I became more and more convinced that we should go for a second source. We tried to do that with the schedule of buy that we had. There is a certain economical buy that we had to have, we figured something over about $30 million, if we were going to entice a second source to get into the business, which would both give us a backup and, if needed, a replacement for the Wedtech development.

We did line up a second source, and really, two of them, for competition, but one of them dropped out. But then in a combination of things, of not getting agreement to go with the second source for a while, and then secondly, when we did get agreement, the money that was available was decreased through various budgetary gyrations. And it did not become either economical or timely to go to the second source; we would have lost more time than if we had stayed with Wedtech.

Senator COHEN. Who was the second source?

Admiral HUGHES. It was Bay Marine in San Diego, Bay Marine. We went out and visited them, and they were very interested. But again, if you would understand, there has to be a certain threshold of business for them to get into a new line, and unless we had something about over $30 million for the next year, they could not handle it.

So the two things compounded to a point that, in my position, I just backed off and said we are just going to have to weather Wedtech and help them out. And we really sent crews up there from some of our places, to help them run the line and try and get them to get a worthwhile product out in a more timely way.

Senator COHEN. If I could ask a question, Mr. Chairman.

Senator LEVIN. Sure.

Senator COHEN. Would you explain the situation when you say, well, we just sort of had to deal with Wedtech. The Navy had no part in selecting Wedtech, did it?

Admiral HUGHES. Oh, yes. As I said at the beginning, the Office of the Assistant Secretary of the Navy, Shipbuilding and Logistics (ASN(S&L)), is charged with the contracting function for the Navy, and they made the choice with SBA. Pressures were exerted to go to SBA, turn the contract over to them, and then SBA made the contract with Wedtech.

Senator COHEN. Well, could you explain the pressure, is what I am getting at——

Senator LEVIN. Would you yield just for one second?

Senator COHEN. Yes.

Senator LEVIN. If I could—I may be wrong—when you said that you had to "weather" Wedtech, were you referring then to the options, or to the original contract?

Admiral HUGHES. The original contract was made somewhere around March——

Senator LEVIN. But when you went out to Bay Marine and looked at the second source, were you looking at the possibility of a second source on the options or on the original?

Admiral HUGHES. On the options. The originals were too far gone at that point; and we had the Army option of 1985 and our own option of 1986.

Senator COHEN. Would you just go back and explain the pressure from the SBA in working with the Navy on this particular Wedtech contract?

Admiral HUGHES. I really did not interface——

Senator COHEN. On the initial contract, not the option.

Admiral HUGHES. On the initial contract. I really did not interface, except with Mr. Saldivar and, I think, Ramirez—I think he was the other gentleman—but from time to time, I would interface with them on the progress on it. But at the beginning, before the contract was made and before the choice was made, I did not interface with SBA at all, and it was really not my function. When I found out it was going to an 8(a) contract, I was very concerned and had an audience with the Assistant Secretary of Navy for S&L along with Vice Admiral Rowden.

Senator COHEN. And who was that? Was that Mr. Pyatt?

Admiral HUGHES. Yes, sir, Mr. Pyatt, and Vice Admiral Rowden, who was the Commander of MSC, and he was my executor in running the MPS business, the direction of them afloat.

We went up to see Mr. Pyatt in the early part of January of 1984, and suggested that we should not go this route, principally because of——

Senator COHEN. Which route?

Admiral HUGHES. Going the first contract to 8(a).

Senator COHEN. Okay.

Admiral HUGHES. And we had heard that Wedtech was probably the contractor that was going to be involved. There were two of them, as I remember, that were mentioned. The other one dropped out, and I do not remember for what reason. But Wedtech was the highlighted one at that point.

Senator COHEN. But why not 8(a)? Just explain why not 8(a).

Admiral HUGHES. First of all, we were late, and that has to hang over everything. We had to worry about meeting the time schedule, and we were hopeful of meeting from the beginning of the first MPS.

In going with an organization that had not done this work before, and that did not have any record that we could see of success in this line of business, we felt it was too chancy. It was a big contract, and we thought that we ought to go competitively with a major company and try to speed up the action to make the time frame, and we felt we had a much better quality control, and that we had a much better chance and reliability for delivery.

So we were not really sensitive to all the details of Wedtech or SBA and the ramifications thereof. We just knew that we should go with a big company to get a better guarantee of quality.

Senator COHEN. So at that point in time, you simply did not want to go 8(a) with anyone in the 8(a) category.

Admiral HUGHES. That is correct. And it was not until the very—I only knew about this for a little time—and it was not until the very end that Wedtech's name ever even came up in the issue. It was really I did not want to go to a small outfit; it was a big contract. This thing could have been as much as $700 million. We have a continuing requirement. The lighterage has to be replaced anywhere from 5 to 10 years, replacement cycle. So it is an ad infinitum job, and going with a small outfit at that time really did not sit right.

Senator COHEN. Okay. So that is in January of 1984?

Admiral HUGHES. January of 1984.

Senator LEVIN. It was January 19, 1984, actually, wasn't it, that meeting, if you remember? That date becomes rather important——

Admiral HUGHES. No. My recollection is that we had a meeting in the early part of January, and I think it was the 4th of January. The decision to go to an 8(a) contract was firmed up and signed out by Mr. Pyatt on about the 6th of January.

In my dealings with Mr. Pyatt, we had a very good relation. We would per force have disagreements. I was worried about output and product, and he had the problem with the business and the contracting. But we always had an open forum, and we would get together when we thought we were heading in a bad direction—and this was one of the cases—with Admiral Rowden and myself and a couple of other people, we had an audience with Mr. Pyatt and thrashed it out.

I remember the last part of the discussion was if we have to go 8(a), I would prefer to just give them the causeways and not the power units. The power units were more involved; the alignment was a problem, and they had not been involved in power before. And I said we could commission somebody else to do the assembly and the power unit alignment, et cetera, and I would feel a little more comfortable about it; but I would prefer as my first choice not to go 8(a) at all.

Senator LEVIN. Admiral, while we are talking about that date, the reason I asked you about January 19th is that Navy personnel participated in a meeting with Mr. Pyatt on January 19th. We had Captain de Vicq here yesterday, for instance, who said he was there on the 19th, and there was a presentation made by the Navy on the 19th, too, as to why they should not go——

Admiral HUGHES. That is right.

Senator LEVIN [continuing]. If I could just finish. He did not know, nor did the other members there know, that Pyatt on the 6th had already decided, because that meeting on the 19th was in Pyatt's office to argue the pros and cons of whether or not they should go 8(a).

And my point is this—they did not find out until quite a few days later that he had decided on the 6th, and were surprised, because then they said to themselves, well, what was the point of going through that exercise on the 19th. And so I am interested in your saying that you met on the 4th with Pyatt, and then you found out that he had decided on the 6th. My question is this: When did you find out that he had decided on the 6th? Was it around that time, or was it a few weeks later?

Admiral HUGHES. It was about the 6th or a little after. It was a disappointment to me.

Again, I have some other things I can check back in my old records in the office. But there was a meeting on the 4th of January in ASN (S&L)'s office, and I have a summary of that from Commander Troy, who was my action officer at the time, dated the 5th of January, and he reports, "Power Causeway Procurement, a meeting on 4 January with ASN (S&L), it was indicated a decision has been made to offer the 1984 power causeway procurement to a Small Business 8(a) minority award." And then it just goes on to say that we objected to it, and the reasons that we did, which I just iterated to you.

Senator LEVIN. Would you furnish the Subcommittee with a copy of that memo?

Admiral HUGHES. Yes, sir.

Senator LEVIN. May we have a copy of the memo you just read from?

Admiral HUGHES. Yes, sir.

Senator LEVIN. All right. Do you want to complete your statement, then?

Senator COHEN. If you would just continue from January 4th on explaining what you did.

Admiral HUGHES. Again, I have to put a little string on it. I am quite sure that January 4th was the date that Admiral Rowden and I went there. This history refers to that. It is possible that it was a different meeting it is referring to, but I do not think so, because after it was signed, as I said, I did not feel we sold the day——

Senator LEVIN. You did not feel——

Admiral HUGHES. I did not feel we sold the day to Mr. Pyatt at the end of the 4 January meeting.

When the paper then came across my desk on the 6th of January, it said that it made it available to SBA, but I do not feel there was any point of contractual commitment on the part of the Navy at that point, that it was retrievable if we could lay this thing on the line better.

And my recollection is that is what the 19th of January meeting was.

Senator COHEN. In other words, you are saying you did not think it was irretrievable to dissuade the Navy from going forward on an 8(a) contract as of January 6th; you thought you could still get it back and say, "Let's put this with a big company"?

Admiral HUGHES. Yes, sir—we are going to make another pitch on it.

Senator COHEN. Okay.

Admiral HUGHES. And I think that is what the 19 January meeting was, and that was when the project officer and everybody else is involved. In the early meeting, it was just a couple of us, trying to lay it on the line and say we would like to go a different way, but if we have to, we should not go with the power train, the whole thing.

Well, at any rate, to close out——

Senator COHEN. Well, pick it up from January 19, at that meeting, what happened?

Senator LEVIN. Were you there at that meeting on the 19th?

Admiral HUGHES. I do not think so. I think that I had the project officer go, and my action officer. I do not believe I was in attendance, but I am not sure. And I can check that out for the record, also, Senator.

When this whole thing started to slip, both the quality slipped, and we had to send some back. There was a problem of fit and form, and we had some problems with the power train, which was Government-furnished equipment; there was some grit in it, and we had to get that fixed up and cleaned out.

And then we also had some problems in delivery of the nonpowered causeways. For the first outfitting, we jury-rigged a mixture of lighterage, including, what I borrowed and we still owe 12 causeways from the Army, as part of the Army's early delivery. We still owe them the 12 that I borrowed and put on the—we used them for training and to fill out the MPS at that time.

As things stand now, we will not reach our inventory objective, probably until 1993; it is that big a setback right now. And then we will have to start replacing things after that.

Senator COHEN. It would be helpful to me if you would talk about your activities from the point of the contract, having decided to go Small Business and set-aside on the 19th—what your experience was from that point on—rather than telling us you are not going to reach your goal now of 1993. You have skipped about 10 years in between.

Admiral HUGHES. Yes, sir. When it was decided that we would stay with the 8(a), that Wedtech had the award, it was then my problem to worry about making it work, and that is a routine approach.

The contract award was made, actually, in about the March time frame, if I remember correctly—no, it was in April. The contract was awarded April 17th to Wedtech, and it was $24 million, the initial contract, and it called for delivery of 10 powered causeways and then some other ones after that.

Senator COHEN. Admiral, if I could interrupt you once again, would you explain when you first knew about Wedtech and what happened to your argument about not allowing an 8(a) contractor to do both the power side as well as just the metal?

Admiral HUGHES. In the memo of the 6th of January that Mr. Pyatt signed out to the head of SBA, it said that we had selected the 8(a), and that we were turning the contracting over to him. It was soon after that—I do not think I can give you a date—that we found out that Wedtech was the potential awardee, and I think that is what stimulated our meeting of the 19th of January to talk about that a little more.

The Assistant Secretary of the Navy in doing that really turned the contracting over to SBA, and the actual SBA contract was made on April the 17th to Wedtech. I was not complaining anymore; it was fait accompli, and we were trying to work the situation out.

I am just going over a chronology here and trying to pick out the things that are of most concern to you. In a message, NAVFAC—Naval Facility Engineering Command—advised my office that, "Although every effort will be made to assist the contractor to provide the required documentation, significant delays in the powered causeway deliveries for MPS-1-T will result if contractor fails to act promptly and responsibly."

One thing I have not mentioned that was a very big thorn in our side at this point is that part of the product from Wedtech was to be what we call Level 3 drawings. Level 3 drawings are drawings that iterate back and forth between the contractor and the technical commands in the Navy to agree to the design and blueprints and kind of seal it. It is that facility, having those available, that allows us to go to a second contractor. They were to be delivered somewhere, I would say, in the May time frame of 1985, roughly, and we just could not get anything out of it, and we kept hitting them on it. Eventually—we never did get them finished—they wound up locked in a box up in New York as part of the holding back of material, and we still to this day do not have those Level 3 drawings.

Senator COHEN. Was that deliberate holding back, are you suggesting?

Admiral HUGHES. Well, everything was locked up; all of the material and products related to the contract were confiscated up in New York and held up there, in the Bronx.

Senator LEVIN. But they were due long before the box was locked up.

Admiral HUGHES. Oh, yes. As I say, they were due before the middle of 1985, and this did not happen until probably about the end of 1986. December, I think, is when they locked them up.

Senator LEVIN. Were those Level 3 drawings part of the Integrated Logistics System, the so-called ILS?

Admiral HUGHES. No, but they should have reflected some. The Integrated Logistics Support should have been part of the bill of material, with the Level 3 drawings, of what materials would be available with them.

Senator COHEN. But the question that I was asking, at least, is was there any perception on your part that the blueprints were deliberately being withheld so as to preclude second source—in other words, if you do not produce the blueprints, and you do not share them with one of your competitors, there is no second source, and therefore there is no competition.

Admiral HUGHES. Well, you know, I cannot read their minds, Senator, in all honesty, but I certainly felt that they were holding the case ace, and as long as they held those, they were delaying our ability to go forward to a second source.

That was the third ingredient why we really got too late for even going after second source. We did not even have the Level 3 drawings finished to go with. So they really held the case card on that.

I wrote several memos through this time frame to Mr. Pyatt, with standard rate Navy language—"I am concerned," and then "I am deeply concerned," and the third one, "I am gravely concerned"—that is supposed to stimulate you that things are getting worse. In this series of memos, I offered in each case that we ought to start for the second source.

We did get Mr. Pyatt's okay in about the May 1985 time frame to go and pursue and look after second source. We did, but as I say, time got away from us in the end.

Senator LEVIN. It was May of 1985?

Admiral HUGHES. 1985.

Senator LEVIN. By then, you are looking at the first options, still?

Admiral HUGHES. We were looking at the 1985 Army and 1986 Navy options, yes, sir. But then it got too late for that.

Mr. Arny visited up there during the early part of 1985. He was new aboard, in the office of Mr. Pyatt. You will be speaking to him later, and he can talk to you about some of the details that he found up there.

With the frustration of deliveries and quality, form, fit, et cetera, Mr. Pyatt designated NAVSEA, the Naval Sea System Command, to have a group of engineers go up to Wedtech and see what their problem was and see if they could help them and to give some projection of success.

They came back with a rather gloomy picture, which we were well aware of.

We also had some people go up to help them run their production line, because there was just nothing moving; it was not working right. And we did start to see a little bit of light of day because of that. And one day, as a good joke, one of the gents in my office walked in and told me that Wedtech really liked me; they had a big, color ad in "Seapower Magazine" which said, "Thanks to the Navy's team, headed by Vice Admiral T.J. Hughes, Deputy Chief of Naval Operations for Logistics, and Captain de Vicq," et cetera, "in one short year, they piloted this minority-owned defense contractor through heavy seas of competition, setting the course for safe passage and contract fulfillment."

It just made me cringe. I was trying to get rid of them.

Senator LEVIN. You were trying to get rid of them?

Admiral HUGHES. Oh, yes. I wanted to go to the other source.

Senator LEVIN. And they were putting that in there. Did they do that with your authority, that ad? Did they talk to you——

Admiral HUGHES. No, sir. And I wanted to see if there was anything I could do about it, but——

Senator LEVIN. Put it in Navy language. You say you "cringe" here. Now, put that in Navy language. What was your reaction?

Admiral HUGHES. It is not fit for your record. I thought that was audacious on their part, because they knew the position that was taken on it, and they just did this to try and grease it over a little, I guess.

Senator COHEN. Was the second source still in San Diego?

Admiral HUGHES. No. Right now, the contract has been let to an outfit, I believe, in Texas.

Senator COHEN. At the time; at the time, you said you wanted to go to the second source.

Admiral HUGHES. Oh, yes, the second source was in San Diego, Bay Marine.

That is really all I had.

Senator LEVIN. All right, thank you. Why don't we then proceed with questions.

Let me go back to the beginning and ask you, to put it in lay language, what was the importance of these causeways. You have given us a technical description. I understand there are pre-positioned ships, which we had funded; they are carrying literally, I guess, billions of dollars of equipment in all those pre-positioned ships—maybe hundreds of millions of dollars—but a heck of a lot of important equipment, to key strategic locations around the world. And as I understand it, these pontoon causeways were going to be needed where there was not a way, an ordinary way, of moving the equipment and material from the ship; where you had an unimproved area that you had to discharge material on, these pontoon causeways became critical.

Can you tell us, in lay language, what difference did it make that there was a 6- or 8- or 10-month delay in those causeways; did it affect the security of this country in any way? Does anyone care?

Admiral HUGHES. This is a new capability that we are coming on-line with in the pre-positioned ships. There was a lot of material that we pulled in from all sorts of supply warehouse and had a program for it; so a lot of our inventory of weapons and rolling stock of the Marine Corps was laid up in these ships.

These ships could be unloaded in an improved area, going up to a pier and having cranes and gantries and what-have-you. But the scenario we were most concerned about was Southwest Asia, and in Southwest Asia in general, that is not available—plus the fact that the slope, the gradient, of the beach is such that you cannot get in very close there, anyway.

So the lighterage was the answer on how to get the material ashore in those unimproved areas, and it was to be unloaded in a benign area in 5 days.

Senator LEVIN. What was the time delay, though? Address that. What difference did it make whether or not these pontoons were delivered on time or not?

Admiral HUGHES. Well, we could have sailed the MPS-1-T in the Atlantic in about the December 1984 time frame, outfitted. We really did not complete the outfitting until about a year later. So there is one year of——

Senator LEVIN. Of jeopardy?

Admiral HUGHES [continuing.] Of sensitivity, right, to those equipments not being there.

Senator LEVIN. What jeopardy did that put us in during that year?

Admiral HUGHES. Well, it just means if you did have to perform, as our scenarios projected, in an unimproved area, you would take about 20 days to off-load those ships instead of the 5 days. And the Commander-in-Chief of the Atlantic sent a message, and his words were very specific, that he considered this almost no capability at all, not having the lighterage there.

We put extra what we call LCM-8s—they are just old, small amphibious craft—so we did have an ability to off-load; but the length of time would have been tremendous.

Senator LEVIN. And was this a significant problem, this delay?

Admiral HUGHES. If anything happened at that time, it would have——

Senator LEVIN. That is what I mean. During that time——

Admiral HUGHES. Yes. If anything happened during that time, you would have been without the responsiveness that you had planned on there.

Senator LEVIN. All right. Admiral, let us go back to the January 4 meeting. You were there, and Pyatt was there; who else was there, do you remember?

Admiral HUGHES. Again, I ask that I get a chance to check that and provide it for the record——

Senator LEVIN. All right.

Admiral HUGHES [continuing]. But Admiral Rowden and myself were the two that pushed this meeting, because we were concerned about it. He was the head of MSC; he is now the head of NAVSEA. But he was the head of the Military Sealift Command.

Senator LEVIN. And who else, besides the two of you and Pyatt? Do you remember offhand? If not, you can supply it for the record.

Admiral HUGHES. I will have to supply it for the record.

Senator LEVIN. All right.

[The information submitted follows:]

My old office records have been destroyed so I cannot clarify attendance at the January 1984 meetings on 4th and 19th. CDR Tom Troy, now working in the office of the Secretary of Defense wrote a point paper on 5 January reflecting the meeting in ASN(S&L)'s office on 4 January wherein it was stated that Navy's was going 8(a) and my representatives objected, pointing out potential quality and timing problems. There was a meeting on 19 January 1984 at my behest to provide a program review showing potential impact on MPS if lighterage contract slipped. VADM

Rowden, Mr. Pyatt and I attended at least one of these meetings and my program coordinator. CDR Troy was at both. I know that I spoke to Mr. Pyatt on the phone 4 or 5 January (before 8(a) assignment memo was signed) expressing my concern for the 8(a) route, given the short time before we expected to turn over the first MPS ships to the unified Commander.

Senator LEVIN. Now, at that meeting, was the discussion as to whether or not there would be a partial set-aside versus a total set-aside, or was the discussion whether there would be any set-aside at all?

Admiral HUGHES. No; the initial discussion was that it was still an open ball game, and that we were voting for not setting it aside.

Senator LEVIN. Any.

Admiral HUGHES. Any.

Senator LEVIN. Even the nonmotorized part of it.

Admiral HUGHES. Right—because of our time element. We were worried about the time element and keeping them all together.

Senator LEVIN. I understand, I understand. And what did Mr. Pyatt say about the possibility of setting aside just the nonmotorized?

Admiral HUGHES. He said he would consider it. We said for the power trains, why don't we have another company that has experience do the final assembly, with the Government-furnished equipment, and the Wedtech, or whatever the 8(a) turned out to be, equipment, and put it together. And he said that would be considered.

Senator LEVIN. So that you proposed as an alternative splitting up this contract——

Admiral HUGHES. Yes.

Senator LEVIN [continuing]. Competing part of it, the complicated part of it, and setting aside the less complicated part; is that right?

Admiral HUGHES. Right.

Senator LEVIN. And Pyatt on January 4 said that he would consider that option?

Admiral HUGHES. Right.

Senator LEVIN. Did he tell you why he wanted to go 8(a) on January 4th, what the reasons were that he felt were so compelling?

Admiral HUGHES. Well, Mr. Chairman, I have to tell you that this was not an uncommon discussion between Mr. Pyatt and myself. There were objectives of 8(a) to satisfy 8(a) requirements. And his office had objectives set up that they wanted to give a certain amount of business to them. Almost every encounter we had was where I saw an operational problem that would be encountered.

I would like to give you an example, a completely different subject. But going to what we call A-76, contracting out the support for bases, we were going to civilian contracting. There was a great penchant to put that contracting under 8(a). What they did was to split the contract up, and somebody would take care of the grass, somebody would take care of the garbage, and somebody would take care of whatever, breaking the contract down into as many as 11 or 13 subsets of different people to interface with. That is too much for a base commander who does not have contract administration capabilities available to him.

What I was pushing for was what we call "umbrella contracting" to allow a larger outfit to take it and let them do the administration of any of the smaller contracts for 8(a).

So we always had discussions on 8(a) in one application or another, and I was not against them all the time, but where it became a very difficult problem for the commander to execute, then I would bring it to his attention and we would negotiate.

Senator LEVIN. Were you surprised by Pyatt's letter on the 6th when he talked about the set-aside of the entire contract rather than referring to part or all of it?

Admiral HUGHES. Yes, sir.

Senator LEVIN. You were surprised?

Admiral HUGHES. Yes, sir.

Senator LEVIN. Were you disappointed?

Admiral HUGHES. I was very disappointed.

Senator LEVIN. And you stated to the Subcommittee staff that this 8(a) set-aside "smelled bad from the beginning"; what did you mean by that?

Admiral HUGHES. Oh, I know what you are thinking of. I did not mean any political dickering. It was a matter of meeting the timeliness and meeting the quality. That is really what I was worried about, the product.

Senator LEVIN. All right. And when did you learn that the pontoon contract had in fact been entirely set aside for the 8(a) program?

Admiral HUGHES. Within a day of 6 January—I do not know—I would say maybe the next day or so.

Senator LEVIN. Did you get a copy of the letter?

Admiral HUGHES. Yes, sir. I had my guys——

Senator LEVIN. That came to you—because it does not show a copy going to you.

Admiral HUGHES. No. I had my people pick one up. We are very close with Mr. Pyatt's office, and——

Senator LEVIN. I understand. I am just asking you whether he sent you a copy.

Admiral HUGHES. We got a copy of it.

Senator LEVIN. Do you remember the incident—going there to pick it up rather than having it sent to you automatically?

Admiral HUGHES. No, sir.

Senator LEVIN. But you remember that it was picked up by somebody?

Admiral HUGHES. Yes, sir. One of my people picked it up and gave it to me.

Senator LEVIN. All right. The name "Wedtech"—well, before I ask that, was there anybody in the Navy who was arguing for this particular set-aside—arguing for it?

Admiral HUGHES. In the Office of the Chief, Naval Operations, I would say no; it was completely in the——

Senator LEVIN. No; anywhere in the Navy; was there anyone in the Navy, that you know of——

Admiral HUGHES. Well, the ASN is in the Navy; he is the Assistant Secretary.

Senator LEVIN. Who?

Admiral HUGHES. Mr. Pyatt is in the Navy. He is the Assistant Secretary for———

Senator LEVIN. How about in the uniformed Navy?

Admiral HUGHES. No, sir.

Senator LEVIN. All right. Now, the name "Wedtech" came up at the end of that January 4th meeting, is that correct, along with a number of other names?

Admiral HUGHES. Yes, sir. There was one other name, is all I remember. There were two names, two contractors that were identified as potential ones.

And by the way, in discussion of this—I think it was really at a later meeting—but it was pointed out that Wedtech had received high praise for its work and that we should not prejudge the output, and that is why it was gone ahead with.

Senator LEVIN. Now, did you or your staff check out Wedtech's performance on other Government contracts after you found out they would be the SBA's nominee to build the pontoons?

Admiral HUGHES. Yes, sir, and we———

Senator LEVIN. What did you find?

Admiral HUGHES. We were concerned.

Senator LEVIN. What did you learn about their prior performance?

Admiral HUGHES. We felt from their prior performance that they tended to drag out, and their quality was a concern for us; and there had been memos back and forth in my staff, just identifying that we had a problem here.

Senator LEVIN. And did you bring those concerns to the attention of Mr. Pyatt or SBA or anybody?

Admiral HUGHES. Well, yes, I think that was the basis of our arguments all along, and———

Senator LEVIN. No; I mean after Wedtech was designated.

Admiral HUGHES. Yes, and I wrote him letters saying that I felt that we ought to save as much as we can out of this thing and get out of it quickly.

Senator LEVIN. Senator Cohen?

Senator COHEN. Admiral Hughes, does anyone in the uniformed Navy ever argue on behalf of a Small Business set-aside contract, to your knowledge?

Admiral HUGHES. You know, there are a lot of reasons why a Small Business set-aside with a proper background can do you a lot of good. You can shortstop a lot of administrative work, and I think there are advantages, but it is in the right place.

Senator COHEN. That is not the question I asked you. Tell me, in your experience, has the uniformed Navy argued on behalf of Small Business set-asides?

Admiral HUGHES. I just cannot give you a specific example, so I will have to say I do not know. In general, it is when it becomes a management problem to us that we complain about it; when it is not, then we do not, and we carry it out.

Senator COHEN. But as a general proposition, you and the uniformed Navy are concerned about results, about getting a product.

Admiral HUGHES. Yes, sir.

Senator COHEN. And you, frankly do not give a damn whether it goes to a small business or a minority-owned firm, whether it is black or Hispanic or anybody else. What you are concerned about is getting the product, because you have got to deal with a rapid deployment force or whatever it might be, and get the product, so our forces can fight in a time of conflict.

Admiral HUGHES. I wish I had said that. I appreciate that.

Senator COHEN. Well, I have been trying to get you to articulate what some of your concerns have been. I mean, that is what the objective of the Navy is. And you leave it to the social planners and Members of Congress who pass the laws to try and achieve certain social objectives, to try and achieve their goals. So you normally, as a uniformed Navy person are not arguing the social aspect of it; Ev Pyatt or somebody else has that job to contend with, in terms of how he has to integrate something that Congress is in favor of, and not the uniformed services—isn't that right?

Admiral HUGHES. Yes, sir, I agree with you.

Senator COHEN. So as a general proposition, it would be hard to argue that anyone, be it Army, Navy, Air Force, Marine Corps, is out there pushing for small business set-asides; they would give it to the biggest contractor they could, as long as they got it on time, and it is a good product.

Admiral HUGHES. Yes, sir, I agree whole-heartedly.

Senator COHEN. Now, could you explain what your experience has been with respect to the small business set-asides relative to Wedtech?

Admiral HUGHES. Wedtech first of all was delayed in first article delivery; secondly, had poor quality control and very simple application of just putting the cans together. We had cans that the holes did not line up on them. The causeways are made of a bunch of cans for buoyancy, but also for interchangeability; if you should dent one, you put another one in, and it is a very flexible thing. But the quality control was such that we had cans, the holes did not match, you could not change them. It really would be a one-of-a-kind type thing and would be a disaster out in a forward area. So their quality control was very poor.

And I would say probably the thing that hurt me most through the whole effort with trying to make it work at Wedtech—and as I say, I sent people up there to work on the production line, to help them out and try and get to an end point—it was the false promises. That is the thing that just destroyed me, because I could have people come back to me on a Friday afternoon and say, hey, here is their new schedule. They realize they slipped, and here, this is written in blood; next week, you are going to see this and that and the other thing; just on and on, and always after the fact of informing us that they were not producing.

Senator COHEN. Could I ask you whether or not that is highly unusual in dealing with small business set-asides, the kinds of problems you have described, namely, delays, product quality control?

Admiral HUGHES. In general, you wind up with delays, but in general, I think there have been much forthright discussions back and forth to stay hand-in-glove with them to try and get the product.

Senator COHEN. No, no. I understand that. I am asking you isn't that a problem that sort of has been endemic; when you start out with a small firm that has not had the experience, and you put them in any kind of a sophisticated contract, you run into similar problems, don't you?

Admiral HUGHES. Yes, sir.

Senator COHEN. Senator Levin and I are both concerned about the Section 8(a) program, in terms of whether it is being either used or misused. I mean, isn't this a case where in fact an 8(a) probably should not have been granted in the first place?

Admiral HUGHES. Oh, I think so. I think it should not have been granted in the first place. There are a lot of other acquisition problems in 8(a) that we could discuss. I think the COC, the Certificates of Competency, in the recent acquisition laws that have been passed are really ridiculous. We used to have a $10,000—anything above $10,000, you had to get a Certificate of Competency. Now, the Congress has taken those words out, so really, if you are going to buy a box of rubberbands, you have to go through that process. And that is absolutely impossible. It is a law that cannot be carried out, in all honesty.

Senator COHEN. What was your impression of Captain de Vicq as a program manager?

Admiral HUGHES. De Vicq? He was an intense, hard-working guy. He had a threshold that he could reach in frustration that he could be pretty hard to get along with. So he——

Senator COHEN. As a program manager, right?

Admiral HUGHES. As a program manager. And I think he was very diligent, and he worked hard, but he just reached a point of being very frustrated in dealing with them—with Wedtech.

Senator COHEN. Were any of the problems of Wedtech at all the fault of how the contract was managed, in your judgment?

Admiral HUGHES. Senator, you know, there is never a clean bill of health for anybody involved in a negotiation like this. There are things that we had wrong. We were late, as I said, when we first started out; we wanted to rush the thing. They accused us of not having some Government-furnished equipment at the right time. But when you looked at it in toto, the big problem was their fault—but you always find problems in your own back yard, and you have to accept that, and you have to overcome them.

Again, Captain de Vicq was a very diligent guy, worked like heck on it, but he could get to a point where he just did not want to play ball with them, they were so hard to get along with. And they were not open; they would not talk and let us know what was going on so we could help them. And even if we were at fault, we wanted to help them.

Senator COHEN. Let me ask you in your experience, is there a problem that once the Navy or the SBA designates a certain firm as the set-aside contractor, that the Navy is under pressure to keep that contractor alive, keep them going? We have a situation in this particular case where Wedtech is selected, they start getting involved, you are falling behind, the Navy is behind schedule, they are in financial difficulties, they are too small to compete against Rockwell and GE or GD, and they argue you have got to keep us in the small business set-aside program, and they are going public with stock offerings; and yet they are too big at this point to let fail. So the Navy gets locked into more options on 1985 or 1986.

Is this a problem beyond Wedtech, or is this a highly unusual, isolated case?

Admiral HUGHES. I think it is an honest effort, and the hope, of not wasting Government funds, that you try and you hold on as long as you can; even though they are slipping, the first answer you run for is to try to help them and try to sustain them, because you have invested; you have got a sunk cost in it already, and if you walk away from it, then the Government has no product for what it has invested. And I think our inclination is probably very strongly on the other side to go to the precipice, right to the edge of it, until we are really in deep trouble. And then sometimes we go too far, and there is no saving the deal. But our inclination is clearly to try to make it work and get a product out of it, without—if you start with another company, you are going to have another investment, another start-up.

Senator COHEN. Should 8(a) contracts in the future be sole source?

Admiral HUGHES. No, sir.

Senator COHEN. You would argue on behalf of competition on them?

Admiral HUGHES. Yes, sir. And there is no reason you cannot have competition among them for something within their bailiwick, that they are qualified to do—and that is what the Certificate of Competency from SBA should take care of.

Senator COHEN. This firm was not qualified to do any aspect of it in the beginning; they did not have any experience.

Admiral HUGHES. They did not have the experience. And I would say that it would be arguable whether anybody would judge that they had the capability. I mean, they did not have the experience, but they did have a plant. The plant was very meager, with no covered-over sheds or anything to protect from the weather, et cetera.

Senator COHEN. So this was a social and/or political decision to put business into that region pursuant to campaign pledges of whatever, that we are going to bring jobs to this region which has a high concentration of minorities, and so the political/social decision was really the overriding concern rather than getting the product out at the lowest price, on time?

Admiral HUGHES. I am a coward. You are going to talk to Mr. Arny next. He can tell you. He was in that position.

Senator COHEN. Well, I was asking you whether that is your judgment.

Admiral HUGHES. No. I do not have that much visibility. I was handed Wedtech as a solution.

Senator COHEN. You do not think that is what took place?

Admiral HUGHES. I think that the system tries to——

Senator COHEN. I am not saying do you pass a value judgment. We have a system in which, as part of the political system here, we have section 8(a) set asides; we have political promises made from every President from the first day. I mean, it is not highly unusual. But the fact is in this particular type of situation, we have promises made to a certain region that we are going to bring jobs there. Now we have got to find a way to bring jobs there, and we have got to find a way to combine or marry small business with a little bit of defense work, because defense work, after all, might hold some promise of nearly one billion dollars over the years. Isn't that what happened?

Admiral HUGHES. We experience this, yes, in the 8(a) contract.

Senator COHEN. And it is not only in Wedtech; it is in other cases, too?

Admiral HUGHES. No; there are other cases.

Senator LEVIN. Admiral, you indicated that you had problems with other 8(a) contractors in terms of delays, for instance, as they were getting started. But as I understand what you were saying is that what was really unusual here was the lack of directness with you, the lack of being straight with you as to what the problems were. Is that fair?

Admiral HUGHES. I think that that is the thing that bothered me the most, because we wanted to get a product, and having Wedtech as the designated corporation to do it, I was willing to do anything to assist them getting a product at that point.

Senator LEVIN. Did you feel they were B.S.ing you?

Admiral HUGHES. Yes—and covering—I mean, there were things that were not available.

Senator LEVIN. Well, did you feel they were bull-shitting you?

Admiral HUGHES. Yes.

Senator LEVIN. Senator Cohen wants me to use Navy language, and I am always willing—of course, that is modest for the Navy.

Admiral HUGHES. We say prayers, too. [Laughter.]

Senator LEVIN. Admiral, you issued a handwritten memo on December 24th, 1984, which says that, "Wedtech's first powered pontoon causeways failed their first article test"; is that correct? [1]

Admiral HUGHES. Yes, sir.

Senator LEVIN. And was that failure serious, in your view?

Admiral HUGHES. Yes, sir.

Senator LEVIN. And as I understand—well, let me just give you a background for my next series of questions.

Captain de Vicq testified yesterday that in September of 1984, that he recommended against the first set of options, and that it was only after the option issue dragged on for many months that the Navy had no choice, he felt, time-wise, but to give those options to Wedtech; that the window had closed, in effect, as he phrased it.

Admiral HUGHES. Yes, sir.

Senator LEVIN. Do you agree with that?

Admiral HUGHES. Yes, sir.

Senator LEVIN. Were you aware of the fact that he recommended against the first options going to Wedtech?

Admiral HUGHES. Oh, yes, sir, and I reflected that in discussions and letters to ASN (S&L), also.

Senator LEVIN. All right. Now, when the proposal came down to give Wedtech the first set of options, despite your recommendation against it, as I understand it, it was recommended that they not only be awarded, but that they be awarded by a so-called "letter contract;" is that correct?

Admiral HUGHES. That happened early in the year, in about the February time frame, if I remember right.

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[1] See p. 286.

Senator LEVIN. Of 1985?

Admiral HUGHES. Yes, sir, in 1985.

Senator LEVIN. All right. What was your reaction to that?

Admiral HUGHES. We really objected, and the head of Naval Facility Engineering Command, Admiral John Paul Jones, wrote a letter to S&L, saying that we should not do this.

Senator LEVIN. When you say "really objected," would you say you strongly reacted to that idea?

Admiral HUGHES. Yes, because we still wanted to go to a second source at that point in time.

Senator LEVIN. Not only that, but doesn't a letter contract mean there is no negotiations, that they just start off—it is like a cost-plus contract?

Admiral HUGHES. Well, it was a real big issue here, because we had the Government estimate at about $42 million for the option. They came in at about $68 million. And counting contingency funds that you have for follow-up and everything, we could squeeze as high as about $48 million out of it, and that was really private business information, if you would, that I knew what we had, how much we had available for it. And so I told them to keep negotiating that $68 million, and if they would not get down to $48 million, that was it, kaput.

Senator LEVIN. Let me see if I understand your position. Number one, you opposed the options going there at all——

Admiral HUGHES. Right.

Senator LEVIN [continuing]. But if they were going to be awarded options, as I understand it, you wanted to negotiate the price of those options and not proceed by letter contract; is that correct?

Admiral HUGHES. Yes, sir.

Senator LEVIN. And what was the importance——

Admiral HUGHES. I did not have that much money.

Senator LEVIN. Now, when you say you objected to a letter contract being issued as proposed—by whom—by Mr. Arny?

Admiral HUGHES. Mr. Arny made a visit up there, and subsequent to that time proposed that we issue the contract in the interest of keeping them going. I think they had a cash flow problem on the business side, and I think that that was probably the impetus. But again, Mr. Arny can testify first-hand.

Senator LEVIN. I understand, I understand. We will ask Mr. Arny later. But it was your understanding that it was Mr. Arny who proposed that a letter contract be issued; is that correct?

Admiral HUGHES. Yes, sir.

Senator LEVIN. And the letter contract is a way of avoiding negotiations before they start. They start down that line, and then you negotiate the price later; is that right?

Admiral HUGHES. Yes. The objective is not to avoid the negotiation, but rather get going with the flow of funds, to get the product continuing to move, et cetera.

Senator LEVIN. But it delays the negotiations until after the contract has been awarded; is that correct—it delays the negotiations on price until after the contract letter has been issued?

Admiral HUGHES. Yes, sir, until after the letter has been issued.

Senator LEVIN. And that would create a problem because then you would have less leverage on the negotiations; is that correct?

Admiral HUGHES. Yes, but you usually can get somewhere on it, but you would not have enough leverage in this case.

Senator LEVIN. You would have less leverage than if you——

Admiral HUGHES. You would have less leverage.

Senator LEVIN [continuing]. Excuse me—you would have less leverage than if you negotiated the price before you awarded the option.

Admiral HUGHES. Absolutely.

Senator LEVIN. Now, Admiral Jones objected to that letter contract, as I understand it; is that correct?

Admiral HUGHES. Yes, sir.

Senator LEVIN. And you agreed with his objections?

Admiral HUGHES. Yes, sir. We were working together on it.

Senator LEVIN. When the first option was finally granted to Wedtech, there was a price that had then been negotiated, because the letter contract idea was dropped after your objection, and again the option was awarded, the price was negotiated. And I gather that you basically felt that you were stuck with the company at that time; is that fair?

Admiral HUGHES. Yes, sir.

The final negotiation again, if my recollection is right, was we got down to about $52 million or something in that ball park, and I had to reprogram an additional amount of money out of another line, about $3.5, $4 million, in order to get the $48 million up to what the final negotiation was. But it was a lot better than the $68 that we started with—although it was a lot more than the $42 that we had estimated it should cost.

Senator LEVIN. All right. Now let me take you to May of 1985. There is another memo of yours, dated May 8, in which you state relative to Wedtech that "We are past the point of simple schedule slippages, and are now dealing with a very real degradation of our sealift off-load capability."

Also in this memo you cite Wedtech's problems as including "inadequate production and assembly facilities, improper tooling procedures, absence of necessary production and assembly work procedures, inadequate quality control measures, and inexperience in building small craft/ships." [1]

What was done about your memo of May 8, 1985?

Admiral HUGHES. It is soon after that that Mr. Pyatt agreed to allow us to pursue a second source—that was one output. The other output, I think, was that he commissioned NAVSEA to send a delegation up there—in the summertime is when they actually went—to give an appraisal from a shipbuilding standpoint of what their problem was.

Senator LEVIN. You were asked by Senator Cohen about the relationship between those critical technical drawings and getting a second source. Wedtech had failed to give you, as I understand it, some very critical technical drawings. Were those drawings essential to start a second source of production?

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[1] See p. 297.

Admiral HUGHES. They are not essential, but as far as time goes, you go back to ground zero and start paying for design from scratch.

Senator LEVIN. Well, let me rephrase my question. They are essential to start a timely second source of production.

Admiral HUGHES. Yes, sir—and also, they were paid for.

Senator LEVIN. They had been paid for. And whose obligation was it to provide those—Wedtech's?

Admiral HUGHES. Wedtech, yes, sir.

Senator LEVIN. And was there an effort made to get those from Wedtech?

Admiral HUGHES. A significant effort.

Senator LEVIN. By whom?

Admiral HUGHES. By, clearly, the project manager; by myself; by John Paul Jones, who was the head of NAVFAC. They were very critical, in my mind, to pursuing the second source, and so I wanted those to get finalized.

And the other point that Senator Cohen made so well is that it was sort of a hammer over our head that took away a lot of our threats and capability while they still had the drawings. I wanted to——

Senator LEVIN. Took away your what capability?

Admiral HUGHES. Well, you know, we were trying to put pressure on them to get a product, to get done in a timely way, and the only threat that we had was to terminate the contract; we needed the material, and we would have to go somewhere else. Well, if you take the time to start from scratch on design and go into a new outfit and everything, it would be several years, literally, two years, to get a product out the other end. So they were sitting in the catbird seat—I am not saying that was their motive, but I am saying that was the fact of what was happening, and that is why I was so intent from 1984, mid-1984, trying to get those drawings.

Senator LEVIN. And was the failure to get those drawings your fault or their fault—Wedtech's fault or your fault?

Admiral HUGHES. It was Wedtech's fault. They sent them down to us a couple times; we sent them back with corrections and changes, and there were a lot of things that were wrong with them. We were never able to get them to culmination. And everything that was said, "Well, we will do it next week," wound up several months later.

Senator LEVIN. My time is up.

Senator Cohen?

Senator COHEN. Admiral, how could they produce anything without the drawings being completed?

Admiral HUGHES. Well, I think they were working from preliminary drawings and specifications. And what we needed is a completed design as well as, as you pointed out before, the logistic support information to turn over to another outfit to develop from.

Senator COHEN. In other words, they could go forward and produce the pontoons as such, even though they did not have the completed drawings?

Admiral HUGHES. Yes, sir, but you have got to realize that relates to their quality control and the fact that they had pontoons that would not fit together, that were not at right angles, and on and on, as a result of a disorderly approach to the problem, including the drawings.

Senator COHEN. Well, I guess the question I have is how were they allowed to proceed, to produce anything, without having the drawings completed in the first place?

Admiral HUGHES. They had specifications, and they had a contract, and the normal process is to do the drawings to a point that they can work from and proceed on, and then we like to have—it is a product of the contract—have a set of those drawings for the Government, so that if we want to produce elsewhere, we can.

Senator COHEN. The point I am trying to make is that if they had drawings from which they could at least start initial production, as inadequate as that may have been, surely, you could have had copies of whatever they had to begin with.

Admiral HUGHES. Yes, sir.

Senator COHEN. And surely there is a capability within NAVSEA and elsewhere within the Department of the Navy to make the kinds of corrections that would be necessary to line up the holes or square the corners, if necessary, isn't there?

Admiral HUGHES. Well, that is a very simple example on my part, but——

Senator COHEN. I mean, that could have been done, couldn't it?

Admiral HUGHES. Yes, but there are other things involved, too, and——

Senator COHEN. So if you really were up against the wall, and you said, "Look, we have got these preliminary drawings, and we made a lot of changes to them; we could have put this out to a second source if we really had to do it"—couldn't you?

Admiral HUGHES. Yes, sir, with the expected degradation in time and dollars.

Senator COHEN. Well, you did not have very far to fall; they had not produced very much, anything that was adequate. So you did not have very far to fall in terms of degradation or time, did you?

Admiral HUGHES. No, but the promises they had every time were always golden, and hope springs eternal to try and save money.

Senator COHEN. In other words, it is the same situation I described earlier—once you got locked into the contract, it just became a downward spiral; you just kept pouring more money in because the option of starting over in terms of a time delay was simply too compelling?

Admiral HUGHES. Yes, sir. We had a very big demand time-wise, on the end of the line, to get those MPS ships outfitted.

Senator COHEN. Now, the delay in producing the finalized drawings, is that something you have experienced with other contractors? In other words, is that a contractors' bag of tricks that they hold back?

Admiral HUGHES. Sporadically, we run into that, particularly with smaller outfits—it is characteristic, really, if you will—but not to this extent. We really should have had them.

Senator COHEN. Well, I understand, but it is done rather frequently throughout the small business set-aside programs, when people are trying to cut out the competition even though it is called for in the contract that the drawings will be turned over to the Department of Navy or Army or whatever, there is always—

not always, but frequently a delay in doing that because the contractors know the system as well——

Admiral HUGHES. Yes, sir.

Senator COHEN [continuing]. So the longer they can delay, the more pressure that puts upon you to keep them in the contract without competition. Isn't that true?

Admiral HUGHES. It is true. Whether they are motivated that way or not, I do not know, but it certainly is true, product-wise.

Senator COHEN. Whether you want to discern their motivations or not, that is the practical result?

Admiral HUGHES. Yes, sir.

Senator COHEN. Okay. Now, with respect to the letter contract, which was apparently—I guess it was never carried out, based upon your opposition and that of others. Were there other contractors in the picture at that particular point in terms of being able to negotiate the price down from $68 million down to $48 million?

Admiral HUGHES. Other contractors?

Senator COHEN. Yes. You mentioned other contractors.

Admiral HUGHES. We were at that point when we were out looking at Bay Marine and another outfit on the West Coast that dropped out of the picture—I do not remember their name. But the answer is we were looking at other contractors at that point.

Senator COHEN. But even at that point, after you raised your objection, and the letter contract was then rescinded, or the idea was rescinded, why were you unable to negotiate further down to $48 million as opposed to $52 million?

I mean, the letter contract which would have given them undue leverage was now a set-aside. Why couldn't you have negotiated down another $4 million?

Admiral HUGHES. It was a decision, I have to say, right or wrong—we came from $68 million down, from their price of $68 million. Over time, contracts tend to cost you more.

Senator COHEN. You start low, as low as you can, which we expect you to do——

Admiral HUGHES. Yes. We started with $42 million.

Senator COHEN [continuing]. The contractors start as high as they can, which we expect them to do as well; and you usually end up somewhere in the middle, don't you?

Admiral HUGHES. Yes, sir.

Senator COHEN. So that is not highly unusual, even though you had a target of $48 million and you ended up at $52 million.

Admiral HUGHES. Yes. My target of $48 million was a real dollar target, because I did not have any more money than that; and they did not know that, I do not think.

Senator COHEN. I understand that.

Admiral HUGHES. But then when it came, we could not go anywhere; $52 milllion was the bottom line. Then I had to go to Mr. Pyatt and the budgeteer and see if I could get a transfer of funds from another line, which we did.

Senator COHEN. And you have other examples when that has happened, when you have had a bottom line which you have had to exceed because you could not get the contractor to negotiate down further?

Admiral HUGHES. Yes, sir. That is not unusual.

Senator COHEN. That is all I have.

Senator LEVIN. Just a couple questions, Admiral.

Your efforts to get these critical documents so that you could seek a second source—you made a real effort, you said, to get those.

Admiral HUGHES. Yes, sir.

Senator LEVIN. Your people made a real effort to get those.

Admiral HUGHES. Yes, sir.

Senator LEVIN. Was the company straight with you in response to your——

Admiral HUGHES. No, sir.

Senator LEVIN. Pardon?

Admiral HUGHES. No, sir, they were not. They were not straight time-wise—I mean, we would be at a discussion point where they said, well, we will send them down to you next week. And we would let an extra week go by and say what is happening, and then it would be a month or so before we would get another installment of what was going on.

So it was really a lack of good faith all the way around.

Senator LEVIN. Is that typical?

Admiral HUGHES. No, sir, not to that extent, I am sure.

Senator LEVIN. Thank you, Admiral. We will excuse you now—and when I say "typical", I meant typical of 8(a) contract. You knew what I meant when I asked you that—in other words, you have had problems of getting documents, I gather, from 8(a) contractors before——

Admiral HUGHES. Oh, yes, sir.

Senator LEVIN [continuing]. But this was, I gather, something of a larger problem than was typically the case. Is that a fair——

Admiral HUGHES. Larger, and not as straightforward. I worked with 8(a)s—for instance, when I was in the personnel business, we were developing with 8(a) people a lot of computer programming. We frequently would not get the documentation in a timely way that we expected. Did they build a program? Yes. How did they do it without the documentation? That is done a lot of times slipshod, after the fact.

Most of the time when you get the documentation, it takes you months, by yourself, to get it up-to-date, and sometimes you are not capable of doing it. So it is not unusual to have that happen. But usually the guy will tell you. He says, "Well, I just cannot get to it yet, and it is going to be a slip," and that is it. And you will get something out of him on some promise that you can look forward to.

In this case, we got a lot of "Manana, manana," it will be there tomorrow morning in the mail, and that sort of thing. And it would be miles away, and clearly, it became my impression that there was no intention of meeting the time frames that they would tell us very straightforwardly.

Senator LEVIN. Thank you, Admiral.

Senator LEVIN. Our next witness is L. Wayne Arny, who is the former Principal Deputy Assistant Secretary of the Navy for Shipbuilding and Logistics and currently Associate Director for National Security and International Affairs at the Office of Management and Budget.

Mr. Arny, will you raise your right hand and be sworn? Do you solemnly swear that the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you, God?

Mr. ARNY. I do.

Senator LEVIN. Thank you. We do now, I understand, have a statement from you. You can either read it or summarize it, as you wish.

I gather it is about four or five pages?

Mr. ARNY. Yes, sir. I would like to read the statement, if I could.

Senator LEVIN. All right.

TESTIMONY OF L. WAYNE ARNY, ASSOCIATE DIRECTOR FOR NATIONAL SECURITY AND INTERNATIONAL AFFAIRS, OFFICE OF MANAGEMENT AND BUDGET AND FORMER PRINCIPAL DEPUTY ASSISTANT SECRETARY OF THE NAVY FOR SHIPBUILDING AND LOGISTICS[1]

Mr. ARNY. Mr. Chairman and Members of the Subcommittee, my name is Wayne Arny. I am the Associate Director for National Security and International Affairs at the Office of Management and Budget. I was the Principal Deputy Assistant Secretary of the Navy, Shipbuilding and Logistics, from August 1984 to August 3rd of 1986, when I was appointed to my current position.

I am pleased to testify before the Subcommittee today on my involvement in my former position, in overseeing the Wedtech contract to build powered causeways for the Department of the Navy and in recommending the exercise of the contract options with Wedtech.

I believe that the difficulties we experienced with the Wedtech contracts were not atypical of the 8(a) program and serve to highlight why the program must be modified to introduce competition.

Competition in 8(a), when coupled with a finite tenure in the program, would better serve the national interest while continuing to provide Federal Government assistance to minority small businesses. It would also assist 8(a) firms in preparing for what I believe is the aim of the program—graduation to the status of a normal small business or ultimately a big business.

I was appointed Principal Deputy on August 6, 1984. At the time of my appointment, the original contract with Wedtech had already been awarded. On August 27th of 1984, I was asked to attend a meeting between officials for the Small Business Administration, the Naval Sea Systems Command, and the Naval Facilities Engineering Command. The meeting was called to discuss two 8(a) programs for sealift support. The first program involved two separate minority small business contracts to build SEASHEDS, and the second was the Wedtech contract to build powered causeways.

The meeting began with the discussion of the SEASHED program between SBA officials and two officials from the Naval Sea Systems Command, NAVSEA, one civil servant and one officer. The officer was Captain C.H. Piersall, United States Navy.

My impressions from the discussions were that there had been growing pains in the beginning of the program for both contractors, but through NAVSEA and SBA assistance, both were not producing satisfactorily.

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[1] See p. 191.

The meeting then moved to the program with Wedtech. The discussions took place between the SBA officials and two officials from the Naval Facilities Engineering Command, NAVFAC, one civil servant and one officer. The officer was Captain D.C. de Vicq, Civil Engineer Corps, United States Navy.

This review, unlike the previous one, raised significant questions. Both the SBA and NAVFAC officials disagreed on several significant points, including the delivery of Government-furnished equipment, Wedtech's projected production capability, the performance of the contractor and the performance of the Government.

I was concerned with the extent of the conflicting allegations as well as with the disagreement between SBA and NAVFAC personnel over who was responsible for the difficulties. I was new in my position and unfamiliar with 8(a) contract oversight.

I did, however, recognize the importance of the Navy's need for off-loading capability for its sealift forces, as well as the demanding deployment schedule for maritime pre-positioning.

Consequently, on September 10, 1984, I requested that NAVSEA provide me with a thorough, independent assessment of the entire powered causeway program. I further requested that the assessment be conducted by Captain Piersall. I knew Captain Piersall from my previous position in the Senate, and I knew he had experience with amphibious and sealift programs. More importantly, he had been present during the discussion of the Wedtech contract and had heard an explanation of the difficulties first-hand.

In the earlier discussions at that meeting, it was also apparent that he had experience in overseeing 8(a) programs, and had been successful in bringing two separate 8(a) contractors up to satisfactory production standards in the SEASHED program.

On September 17, 1984, I received an interim report from Captain Piersall. He had visited the agencies responsible for oversight of the powered causeway contract, as well as Wedtech. The report stated that Wedtech's production facilities, material and work force were, in Captain Piersall's opinion, sufficient to complete the first 10 powered causeways, if Government-furnished water-jet pumps were delivered in a timely fashion.

The report further noted that late delivery of the water-jet pumps would impair Wedtech's timely performance of the contract and highlighted two risks to completion of the causeways—a lack of clear understanding by Wedtech of the inspection requirements in the contract, and a misunderstanding by Wedtech of its responsibility for the performance, when installed, of the Government-furnished pumps.

Captain Piersall recommended that these issues be resolved by providing Wedtech with clear written correspondence to eliminate further misunderstandings.

The report included his assessment that Wedtech would be able to deliver the causeways on a schedule slightly behind the contract schedule, but nevertheless on an acceptable schedule to support the maritime pre-positioning ships.

On September 28, 1984, I received Captain Piersall's final report. In it, he noted that a number of significant actions had taken place subsequent to his interim report, but that timely delivery of the Government-furnished pumps remained a problem that would affect Wedtech's delivery of the causeways.

The issues raised by Wedtech regarding inspection requirements and Wedtech's liability for the performance of installed Government-furnished pumps, however, had been resolved.

He included a number of additional recommendations to improve production and delivery. Significantly, he noted the high quality of the work being performed by Wedtech and stated that, in his opinion, Wedtech had the resources necessary to meet the Navy's operational requirements for causeways, including the option quantities.

On October 3, 1984, I forwarded a copy of Captain Piersall's report to each organization involved, requesting that they review the report and take action to implement the recommendations.

On November 13, 1984, I received a response to Captain Piersall's final report from Captain de Vicq, the officer at NAVFAC responsible for oversight of Wedtech, that also noted the high quality of Wedtech's work product.

After reviewing Captain Piersall's report and Captain de Vicq's response, I felt that although Wedtech was not performing the contract on time, the delays which had ensued were not solely attributable to Wedtech. Moreover, a learning curve was to be expected, especially with a new 8(a) contract in which the contractor was performing a particular type of work for the first time. In addition, the contract, if taken away from Wedtech, in all likelihood would have been awarded to another 8(a) firm, which with the learning curve would have begun anew, exacerbating the delays which we had already encountered.

In summary, the contract had been awarded to Wedtech prior to my arrival, and I felt it was my job to make it work if at all feasible. I did not want to delay production and receipt of the causeways any further, and all the indications I had just received were that Wedtech would be able to perform and build quality causeways.

Therefore, on November 19, 1984, I signed a memo to NAVFAC requesting that negotiations be undertaken with Wedtech to reach a fair and reasonable price for the fiscal year 1985 options.

Subsequently, as difficulties persisted with the program, I decided to visit Wedtech in New York in April 1985, to view their facilities first-hand. I was impressed, as were the members of the Shipbuilding and Logistics staff who accompanied me, with the actions that were being taken to correct production problems.

Wedtech was having problems, as I understood it, in achieving precise repeatability. That is not to say that one could tell at a glance that each unit was not exactly the same as the next. Rather, they were just outside the specified range of tolerances in form and fit of the units.

The powered causeway is made up of an assembly of pontoons and powered modules. The pontoon section consists of thirty-three modules arranged three modules wide and eleven modules long resulting in a causeway or floating pier arrangement. The powered section consists of three large modules—two powered modules and a center module containing a fuel tank, batteries, anchor housing and accessories.

The entire powered causeway system is designed to be loaded on board a cargo ship. When the ship reaches the objective area, the powered and non-powered causeways are lowered into the water and used to ferry cargo from the ship to the shore. The cargo could be lifted directly from the ship onto the causeways, or the causeways could be positioned at the end of the ramp of a roll-on-roll ship and rolling stock could be driven directly on to them.

Interchangeability—that is, form and fit—within acceptable tolerances is therefore an important factor.

Wedtech's difficulties, as they were explained to me by their new production engineer, were not with the quality of the individual worker's product, but rather with the way they had set up their production line—an error resulting, he said, from the fact that Wedtech's previous work had been primarily as a machine shop type operation. When they used these machine shop techniques on a large product line, they were able to build the unit, but they were unable to get precise repeatability.

Wedtech obviously had realized they had a problem, because they had hired a new production manager. Most significantly, he seemed to have had extensive experience in shipbuilding. He not only knew the community, but he was able to clearly articulate to us why he had stopped the production line, how he planned to rebuild the jigs to ensure repeatability, and how in general he was going to improve the entire production process.

It was at this point that I realized fully that we had also misplaced oversight of the Wedtech contract with NAVFAC. Wedtech was not building just causeways, but in fact, mini-ships. Oversight over the contract had been placed with NAVFAC, I was told, because the civil engineers, the Sea Bees, were the end-user of the product. NAVFAC's primary expertise was in real estate and military construction of bases and buildings. Because the causeways, with their pilot houses, propulsion systems, fuel systems and steering systems were mini-ships, contract oversight, in my opinion, should have been placed with NAVSEA.

NAVSEA had the experience in oversight of shipbuilding contracts, and they would have been able from the beginning of the contract, I felt, to provide Wedtech with more experienced technical assistance.

As a result of my visit to Wedtech and my realization of the role NAVSEA could play in the contract, I requested that the Navy Supervisor of Shipbuilding in Brooklyn conduct a second independent review of the contract performance. The report provided in response to this request was encouraging. The jig-assembly technique instituted by the new production manager appeared, in all likelihood, to have solved the interchangeability problem.

It was estimated that projected delivery dates would improve as a result of a recent facility upgrade, resulting in an expected recovery of the schedule upon completion of the rework phase. The report concluded with a statement that Wedtech was found to be undertaking an ambitious "get well" program, with the potential for satisfactory completion of the contract.

It had been recommended to me, on more than one occasion to compete the program as well. I agreed with that general recommendation, but I felt that because we had agreed to make causeways an 8(a) program, the project would have to stay 8(a) unless there were very unusual circumstances.

Consequently, we decided to try to compete the project by using a dual-source competition, to split the powered causeway production between two qualified 8(a) contractors.

I was comfortable that we could use the dual-source approach and still remain in the 8(a) program because we had accomplished something similar earlier that year on the 8(a) SEASHEDS program. We had been asked by the two SEASHED contractors, who had separately been producing but not competing for the SEASHED contract, and their supporters, to award the lion's share of the 1985 contract to one particular contractor or the other.

This was a dilemma, because we had no clear, substantive way to measure the performance of the two 8(a) contractors that would not involve subjective assessments which would inevitably be questioned by either party.

We did, however, uncharacteristically have two qualified 8(a) contractors, and therefore decided to attempt to initiate a dual-source competition.

We met with both contractors and their representatives separately to discuss the idea. We also met with SBA officials at the political and staff levels to convince them that we needed to compete the contract, and with staff members from at least one Small Business Committee. Our efforts were eventually successful, and the SEASHED contract was competed to the satisfaction of the parties concerned.

Powered causeways were intended to be our second attempt at 8(a) competition. Initially, we were budgeted to buy more than enough units for the Navy and the Army in 1986 to start a second source, and our only internal debate was how many to award to the second contractor. We had even identified, and the staff had visited and approved of, a minority small business on the West Coast who was a shipbuilder.

Moreover, we had decided to switch contract oversight from NAVFAC to NAVSEA, and both commands had agreed. Unfortunately, as a result of budget cuts and changed plans, the number of units we needed to buy became so small that I was advised we would not have enough to make a dual-source competition work. As a result, we exercised the 1986 option with Wedtech. Even though deliveries were still late, they were delivering, and I was told quality was still good.

Mr. Chairman, I feel it is important at this point to comment to the Subcommittee on the relationship Mr. Mark Bragg had with me. His name has appeared publicly in relationship to the Wedtech contract.

I had discussions with Mr. Bragg at various times throughout the period of my association with the causeway project. I assumed Mr. Bragg was the Washington representative of Wedtech, and he would contact me to discuss the progress of the program and areas of concern, as did many other lobbyists, corporate officials, Congressmen or Congressional staff members who were seeking information on a full range of 8(a), small business and big business contracts we were pursuing.

I viewed my job as a public servant to listen to their thoughts and concerns and to try to answer, to the best of my ability, their questions—or have them answered by the Navy staff.

Each and every contractor was someone's constituent, and I felt that they deserved to have their concerns addressed responsibly, and to have their perspective, which was quite often different from that of the Navy, considered as we addressed their programs.

Mr. Bragg was obviously concerned with ensuring that his client performed properly on the contract and received the option awards. He also was interested in ensuring that Wedtech receive fair treatment from the Navy.

I gave his concerns and comments consideration, as I did with everyone else with whom I addressed the Wedtech contract or any other contract under the purview of the Department of the Navy.

Mr. Chairman, in your letter requesting my testimony, you inquired as to the wisdom of selecting Wedtech—or any 8(a) firm—to perform the powered causeway contract. Because I was not involved with the initial award of the Wedtech contract, I am unable to comment on the wisdom of that particular selection.

I do, however, feel qualified to comment on the wisdom of selecting 8(a) firms to perform similar contracts, and on why competition is necessary and can work in the 8(a) program.

If we do not award larger, more complex projects, such as the one with Wedtech, to 8(a) firms, we will never be able to get them into major manufacturing. I understand, as is typically the case, that SBA identified Wedtech as the contractor for this project.

A better solution in the future may be for SBA to tell the agency involved that the project is set-aside and have the agency find a qualified 8(a) contractor. That being the case, perhaps the Navy would have found the West Coast shipbuilder, as happened when we went looking for a second source for the powered causeways.

Alternatively, the Navy might have been told to advertise that the project was open to all qualified 8(a) firms. There may have been even more fledgling but capable firms identified that might have been able to handle the project.

I also believe that the nature and philosophy of the 8(a) program, even with competition, mandates that once you pick a contractor or set of contractors, you must work with them over the long haul to achieve a quality product.

The Government will not be able merely to monitor the program, as it does with most other programs. It will have to provide more assistance and encouragement than normal. It must not relax its standards of quality nor its negotiation on firm and fixed prices, but it must be prepared to help educate the company and make sure that the program does not have overly severe delivery standards that might be demanded of established businesses. It was my experience in that job that even the established businesses are more than susceptible to schedule slippages.

In conclusion, Mr. Chairman, I believe there are two keys to successful utilization of 8(a) programs. First, we must continue to limit the time frame in which a business may remain eligible for 8(a) contracts. The purpose of the 8(a) program must be to help minority businessmen become self-sufficient. It is counterproductive to allow them to remain forever in what is, in effect, a Government-subsidized program.

Second, we must instill competition into such programs. Competition is not a panacea, nor is it the absolute solution, but its benefits can be significant. Competition within the 8(a) program would serve to ensure that the Government receives what is, in fact, the closer we can get to a fair and reasonable price, not one determined to be reasonable by Government estimates that are often subject to question.

I believe competition would also serve to help 8(a) firms transition into the real business world. It gives them experience in developing competitive bids so that they will be able to compete effectively after graduation from the 8(a) program—which must remain the true objective.

Last, competition removes the tendency for businesses to bring pressure to bear on their elected representatives to ensure a contract award. Competition brings a simple answer to such pressure. It reduces the question to whether the procurement was fairly administered and whether the contract or, in appropriate circumstances, the largest portion of the contract, was awarded to the lowest responsible and responsive bidder.

I sincerely hope that I have addressed the questions in your letter, and I am ready to answer any additional questions you might have.

Senator LEVIN. Thank you, Mr. Arny.

First, you indicted that you came to the Navy as the Principal Deputy Assistant Secretary for Shipbuilding and Logistics in August of 1984, after the original contract had been awarded to Wedtech.

Mr. ARNY. Yes, sir.

Senator LEVIN. At the time you assumed that responsibility for the pontoon contract, Wedtech, though, was still working out of a roofless building, with portable generators and the company's procurement and management system was a mess, and they were having trouble finding qualified welders, and that kind of thing.

Did you have any feeling at the time, given the critically important nature of this system, as to whether or not the Navy ever should have gotten into this to begin with? I know you said you came afterwards, but when you came and you found that situation, did you have any feelings about it at all?

Mr. ARNY. To my recollection, sir, when the issue first was broached to me, which was in the meeting, I believe, of August 7th, the contract was ongoing, and I did not go back and prejudge as to whether or not we should have been there.

Senator LEVIN. All right. Now, when you talked to the subcommittee staff last April, you indicated that you had spoken frequently with Mark Bragg about Wedtech; is that correct?

Mr. ARNY. Yes, sir.

Senator LEVIN. And you said that he pitched Wedtech's case and urged the Navy to exercise the options on this contract.

Mr. ARNY. Yes, sir.

Senator LEVIN. And you were involved in the options issue, although you were not there for the original contract?

Mr. ARNY. Yes, sir.

Senator LEVIN. About how frequently did you speak with Mr. Bragg while you were with the Navy?

Mr. ARNY. I cannot give a specific number of times, but it was not an unusual number, given that in my impression he was the Washington representative. There were others I spoke with more than he on other contracts.

Senator LEVIN. Would you say it would be a number of occasions—on a number of occasions, you spoke to Mr. Bragg about Wedtech?

Mr. ARNY. I do not have a definition of "a number of occasions;" it was not unusual.

Senator LEVIN. Five?

Mr. ARNY. At least.

Senator LEVIN. Now, did you talk with Mr. Bragg on those at least five occasions in person or over the phone or both?

Mr. ARNY. Both.

Senator LEVIN. And when you met with him in person, would that be at your office, or on social occasions, lunch, dinner; when would it be?

Mr. ARNY. I had been to his house once at a dinner party, but I had him in for lunch and talked to him then; and also in my office, I believe, but I am not sure.

Senator LEVIN. Prior to the time you took this job, were you acquainted with Mr. Bragg?

Mr. ARNY. Not at all.

Senator LEVIN. And are you now friends?

Mr. ARNY. I have not spoken to him since the contract—since I left.

Senator LEVIN. Since you left the Navy?

Mr. ARNY. Since I left the Navy.

Senator LEVIN. Were you aware at that time that Mr. Bragg was a partner of Mr. Nofziger?

Mr. ARNY. Yes, I was.

Senator LEVIN. And you knew who Mr. Nofziger was?

Mr. ARNY. Yes, sir, I did.

Senator LEVIN. Documents that we have from the Navy files indicate that you were contacted by somebody from Congressman Biaggi's office in March of 1986, and the note that we have indicates that Congressman Biaggi wanted a favorable report on Wedtech's performance to pass on to the Army.

We have a handwritten note, with your signature, in which you requested someone by the name of Al Steadley to look into that matter. Mr. Steadley then wrote you a note in which he stated there was no such report. But Tim Kelly, who is now the program manager on the pontoon contract, had agreed to talk to the Army and to say that Wedtech is on-track and doing well. And that is in the bottom of the stack of documents, by the way, that you have in front of you. Do you see that document? [1]

Mr. ARNY. Yes, sir.

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[1] See p. 293.

Senator LEVIN. Mr. Steadley's note concludes by saying that he relayed this arrangement to Mark Bragg. Isn't it rather unusual for that to have been relayed to Mark Bragg?

Mr. ARNY. No, sir, because Mark Bragg was the Washington representative. The call was from Lyn Whitney—according to the note I have in my handwriting, the call was from a Lyn Whitney, who works in White House Legislative Liaison. And Mr. Rodeheaver wrote back and said the contract is for a maintenance truck for the Army and is a phased contract and said it is an Army contract.

Then, apparently, I got a call back and said the report exists concerning Wedtech; they would like to send it to the Army. That is not an atypical request from a contractor. If a favorable report exists, they would like to have it.

Senator LEVIN. So it would not be unusual for that "arrangement"—in the words of Mr. Steadley—to be relayed to Mark Bragg?

Mr. ARNY. I am not sure what he meant by "arrangement." Apparently, they—I have no idea, sir. I did not find it unusual.

Senator LEVIN. Who was Mr. Steadley, by the way?

Mr. ARNY. Captain Al Steadley. He was a civil engineer who worked on the S&L staff.

Senator LEVIN. You have made reference, I believe, to the so-called Piersall report.

Mr. ARNY. Yes, sir.

Senator LEVIN. You decided you needed an outside review of the pontoon contract, and you chose Charlie Piersall to do a "quick look," as you or somebody put it, and to report back to you; is that correct?

Mr. ARNY. Yes, sir.

Senator LEVIN. Was Mr. Piersall a personal friend of yours at that time?

Mr. ARNY. No, sir.

Senator LEVIN. What was the purpose of Piersall's report?

Mr. ARNY. My involvement with Wedtech began at the August 27th meeting, in which I was asked to come in and receive what I recall being told was a briefing on two programs. And at the first part of the briefing was Captain Piersall—who I had known of from my Senate position, because he was in charge of amphibious programs, and I had the shipbuilding program. And, like I said in my statement, he had brought two 8(a) firms up to standards and had worked with them and talked about bringing them up by their bootstraps.

And then, the discussion turned to Captain de Vicq. It was a heated discussion between Captain de Vicq and SBA, to say the least, and I sat there observing it, and then when the discussion was over, they turned to me and said, "What is your decision?"

At that point, I had no idea what a SEASHED or a causeway was, nor did I have any idea what my decision was supposed to be. At which point, having watched some of the people I had worked for in the Senate in a similar position, I said we would have to get back and take a look at it.

Senator COHEN. You are not referring to the Senator from Maine, are you?

Mr. **Arny**. The Senator from Maine, the Senator from Michigan and other Senators, when they are caught in a position they had no idea what people were talking about——

Senator **Levin**. Well, we have staff, and we usually rely on our staff, and to just, after a month——

Mr. **Arny**. I did——

Senator **Levin**. Well, Captain de Vicq, though, was in the Navy, was he not?

Mr. **Arny**. Yes, sir, but he was not on my staff.

Senator **Levin**. But he was a Navy person who made a very strong recommendation. I understand the SBA and de Vicq both agreed on a number of critical things, including the fact that Wedtech was having major problems; and instead of relying on de Vicq at that point, you went outside of the Navy——

Mr. **Arny**. No, sir.

Senator **Levin** [continuing]. Excuse me—you went to an outside person who was not connected with the contract. De Vicq was the program manager on that contract.

Mr. **Arny**. Yes, sir.

Senator **Levin**. So instead of crediting de Vicq and what he said, you went to someone outside of that program to take a look at it. Is that correct?

Mr. **Arny**. Yes, sir.

Senator **Levin**. And as I understand it, you knew Mr. Piersall from before.

Mr. **Arny**. Yes, sir. I had a passing acquaintance with him. I knew he was involved in the amphibious program. And I was being asked to make a decision about something I knew little or nothing about; I had two opposing views from SBA and from NAVFAC. And since the only experience I had was I knew that Captain Piersall was a program manager for billions of dollars of shipbuilding programs and from that meeting, he had obviously had experience in oversight of an 8(a) contract, I asked him to take an independent look.

Senator **Levin**. But your own program manager was someone who had worked with this contract——

Mr. **Arny**. Yes, sir, but Captain Piersall was also our own program manager——

Senator **Levin**. Not on this contract.

Mr. **Arny**. No, but on all sealift. And he had experience in 8(a).

Senator **Levin**. I understand. But your program manager on this contract was taking a very strong position against the exercise of the option. Now, why didn't you rely on your program manager?

Mr. **Arny**. I relied on his input, and I asked for an independent look. We were in the 8(a) program. I felt that since it had been awarded, given the pressure on the Government and on the Services to have as many 8(a)'s as possible—to meet their goals—that we should not pull out of the 8(a) program without a substantive reason. If I had gotten one, I would have recommended to Mr. Pyatt to pull out.

Senator **Levin**. And you did not feel that Captain de Vicq had given you a substantive reason?

Mr. **Arny**. Yes, there were substantive reasons to pull out, but I was going to double-check it before we did.

Senator LEVIN. You know, the Packard Commission has urged us to try to put more confidence in our program managers. It seems to me when you have got a program manager, and Captain de Vicq was your program manager, who had a very strong opinion on this, who had banged his head against Wedtech and had been hit by a sledgehammer of Wedtech a few times, that you credit his conclusions. And I do not understand why you would have someone take a "quick look" from the outside and then credit that person's conclusions more than your own program manager. That troubles me.

Mr. ARNY. Well, I not only credited Captain Piersall's report, but I credited Captain de Vicq's response. He basically agreed in his letter that he was optimistic on quality, he was pleased on the cooperation, and he was still concerned about schedule. But at no time did anybody offer an alternative to Wedtech that would have brought the boats on-line any quicker.

Senator LEVIN. This is what de Vicq's response says in part here:

> The fact remains that Wedtech's most current projections show test and delivery schedule slippages which will result in our inability to provide powered causeways when required for initial loading of any of the first 3 MPS ships. The first article test schedule provided orally by Wedtech to Captain Piersall's team, calling for testing to commence the first week in October, with delivery to the Government by 15 October, did not occur.[1]

That is what de Vicq told you after the Piersall report was issued.

Mr. ARNY. Yes, sir.

Senator LEVIN. So de Vicq in effect told you Piersall was wrong, did he not?

Mr. ARNY. In terms of schedule, there was still a difference.

Senator LEVIN. My time is up.

Senator Cohen.

Senator COHEN. A couple of points, Mr. Chairman.

With respect to the Packard Commission that you referred to, as I understand it, the Packard Commission had not made any recommendation at the time Mr. Arny was called upon to make a decision. So I do not know that it would be fair to him to cite the Packard Commission as recommending more delegation to the program managers, when in fact the Packard Commission either had not completed its investigation or recommendation.

Secondly, I find it altogether plausible that Mr. Arny, after being on the job for about 3 weeks and coming from the Senate, the Senate Armed Services Committee, walks into a new office and is presented immediately with a conflict between an SBA official or employee and a program manager, would seek a third opinion.

I know that when I have conflicts on my staff—I have frequent conflicts on my staff, I might add, and I have pretty strong personalities on my staff—and sometimes, out of frustration, or simply caution, I turn to another Senator's staff, the Armed Service Committee staff, the Intelligence staff—I go outside to get a third opinion, just to be sure that I do not have two personalities who are locked in an intellectual or ideological struggle. So I do not find that altogether unusual.

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[1] See p. 278.

I have plenty of problems with Wedtech, I must tell you, but I do not have problems with Mr. Arny having been put in a position after 3 weeks on the job of seeking an opinion from a person that he had known had worked out another contract.

I might add that during my service on the Armed Services Committee, I have lots of problems with the way in which the SEASHED program was handled. It is not unusual, having been Chairman of the Seapower Subcommittee, to find that there was a lot of politicking going on to make sure that an award, or at least programs, went to a certain District or State in order to accomplish a particular program.

So that does not strike me as being unusual.

This case is unusual in the way in which it came about, I believe, and I believe that once the decision was made to go Section 8(a) with this particular firm, then I think that set in motion some of the attacking sharks who saw an opportunity to bleed this particular company.

But at least my initial reaction, having known and worked with Mr. Arny, understanding the circumstances initially of him, after only three weeks on the job, being put in the position of seeking an outside opinion, I do not find that troubling or disturbing or sinister, I must say.

Mr. Arny, I would like to ask you about your trip to Wedtech. At the time that you went to Wedtech, what were your impressions? You painted a somewhat positive picture, and Senator Levin and I have a somewhat negative picture of what their capabilities were at that time in terms of just the physical facilities alone were rather shabby, to say the least, in terms of what we have been told, and their capabilities.

Mr. **Arny**. From what I read at the beginning when I took it over, that indeed was the case, as Captain de Vicq reported. What I saw when I got there was a facility that did have a roof on it, did have electricity, a production line that was in place; they had a launching facility; like I say, they had equipment in place. They had obviously made capital improvements, and were in the middle of production.

As I said in my testimony, what impressed me the most was a gentlemen by the name of—I believe his name was Rudy Roemer, who had been hired sometime shortly before that by Wedtech to run their production facility.

When I was in the Senate job, I had visited, I think, almost all the large shipyards and many of the small shipyards, and what impressed me about Mr. Roemer—because there was serious doubt at the time—it was my feeling that we could not handle the slippages, but I had no alternatives presented to me to produce a quality product any faster than I was being advised that Wedtech could. And even Captain de Vicq in his response to Captain Piersall's letter, said that he was encouraged, or words to that effect, about their quality.

What Mr. Roemer did for me was a couple of things. It was obvious as he explained Wedtech's difficulties that he was the first man with shipbuilding experience to work on the production line. And the things that he was doing to rebuild that production line, to solve their repeatability problems, were very impressive.

On that occasion I also had the Director of our Shipbuilding Procurement Office with me, because we were going to go and see shipbuilder later that afternoon. And we both said the same thing, that if anybody could fix the production line, this man could. He had the experience with Avondale and with Ingalls and with others; and he could explain, as he went through the line, parts of the line and show you how it was set up on a machine shop mentality and how he was changing that to bring a shipbuilding mentality, into it. He had impressive engineers with him who were Russian emigres, and was very comfortable in terms of their knowing what they had to do to change the line.

Senator COHEN. There has been some discussion, and it is a troubling one, frankly, but perhaps you can clarify it for us, but there were several pre-award surveys done on the options contract. And yesterday Colonel Hein testified that it would be unusual for two pre-award surveys to be conducted. In this particular case, there were actually three.

Perhaps you can explain why there were two pre-award surveys done on the options, in fact, they went on to a third, at which time, I believe it was taken out of Colonel Hein's hands.

Mr. ARNY. Reading the document, that occurred apparently for the 1986 options, and that never came to my attention.

Senator COHEN. Let me go back, first. Go to the 1985 options, first. You made that decision?

Mr. ARNY. Yes, sir.

Senator COHEN. All right. Tell us your rationale for that at that time.

Mr. ARNY. Again, my feeling was that when we were in the 8(a) program, the Navy and the other services were under pressure to meet a quota for 8(a) programs; that in order for me to go to Mr. Pyatt and Secretary Lehman and the SBA and say we were dropping out of this, I would need some solid technical reasons to do so, other than schedule slippages. And I had reports that they could get back on schedule, so I recommended that we exercise the option.

The letter in question that Senator Levin has brought up is one that I believe was staffed out, that came to me—because I have gone back and checked with the Small Business office——

Senator COHEN. Did you know what a letter contract was at the time?

Mr. ARNY. No, sir, I did not.

Senator COHEN. Well, did you inquire as to what it meant at the time?

Mr. ARNY. No, sir. I said, based on this, we should exercise the option. The letter came to me, and I signed it. When Admiral Jones, whom I had dealt with on a weekly basis, if not more than that, came back and said, "We do not want to do it this way," I concurred.

Senator COHEN. So Admiral Jones—I assume you met with him. Did he explain——

Mr. ARNY. We met every couple days, anyway, because I had lots of other programs with which I dealt with Admiral Jones.

Senator COHEN. Was that the first time you then learned about what a letter contract would do in terms of loss of leverage?

Mr. **Arny**. I never questioned it. I never even got back to what a letter contract was.

Senator **Cohen**. In other words, when Admiral Jones said do not do it this way, that was it?

Mr. **Arny**. Yes, sir.

Senator **Cohen**. Do you always respond to Admirals that way?

Mr. **Arny**. Well, when a man is named "Admiral John Paul Jones," you have a certain respect for him.

As far as I was concerned, how he carried out the negotiations technically was his job, and I had felt that based on the recommendations we should exercise the option. If that was the way he wanted to proceed, that was fine with me.

Senator **Cohen**. Go on to the pre-award surveys.

Mr. **Arny**. That never came to my level, sir.

Senator **Cohen**. On the 1986 options?

Mr. **Arny**. On the 1986. I have no recollection of that ever being an issue at my level.

Senator **Cohen**. At whose level would that have occurred?

Mr. **Arny**. I am not sure that that was not worked out at the program manager's level or Admiral Jones' level. I just have no idea, sir.

Senator **Cohen**. I am going to cease for the time being. We have a vote on. But perhaps Senator Levin will continue questioning.

Senator **Levin**. What I will do is I will continue for 10 minutes, and if you are not back by then, I will recess for 5, so I can run and vote; if you are back, then you can pick up with Mr. Arny.

Senator **Cohen**. Fine.

Senator **Levin**. Mr. Arny, while you are on the subject of this letter, who prepared that letter for you; do you remember?

Mr. **Arny**. No, sir, I do not. I went back just recently and asked the Small Business staff; they asked one of the retired secretaries, and she said she thought it came from outside the Shipbuilding and Logistics staff.

Senator **Levin**. Well, who ordinarily would prepare that kind of letter for you?

Mr. **Arny**. I would ask it to be prepared, and somebody in the system would prepare the letter. I do not recollect who I asked to prepare it. It is my signature, and I signed it.

Senator **Levin**. Well, could it have come from the Small and Disadvantaged Business Office?

Mr. **Arny**. We checked with them and, as I said, the retired secretary from that office said she believed that it came from outside—either NAVFAC or NAVSEA. And since NAVFAC disagreed with the position, I would suspect it was not NAVFAC. Maybe it was NAVSEA.

Senator **Levin**. When you say they did not agree with the position, they "went ballistic" when they heard about this.

Mr. **Arny**. Yes, sir.

Senator **Levin**. So you are putting it gently. Now, no one that we have talked to has had anything other than amazement that that kind of proposal would be forthcoming. So it is important that we find out who it is that put that in front of you.

Mr. **Arny**. I have absolutely no——

Senator **Levin**. You just signed it.

Mr. ARNY. Yes, sir.

Senator LEVIN. Well, now, when you described this today in your prepared testimony you said that your November 19, 1984, memorandum to NAVFAC "requested that negotiations be undertaken with Wedtech to reach a fair and reasonable price for the 1985 options." That memorandum does not say anything about negotiations, does it?[1]

Mr. ARNY. No, sir, but that was my intention. I knew that this was sole source, and we had to negotiate.

Senator LEVIN. No, I am not talking about your intention. I am saying in your prepared testimony today, you state that this memorandum requested that negotiations be undertaken with Wedtech to reach a fair and reasonable price for the 1985 options. I am saying that that is not an accurate characterization of that memo, is it?

Mr. ARNY. No, sir, not of that memo, but that was my intention when we exercised the option.

Senator LEVIN. So that your testimony today is not an accurate characterization of that memo, is it?

Mr. ARNY. No, but it is an accurate characterization of what I intended when I signed that memo.

Senator LEVIN. I understand what you are saying.

Mr. ARNY. Yes, sir, that is correct.

Senator LEVIN. It did not purport to represent your intention; it purported to represent the memo.

Mr. ARNY. Yes, sir.

Senator LEVIN. So you may want to modify your testimony in that regard.

Do you now realize how unusual that letter contract is—do you know what a letter contract is?

Mr. ARNY. Roughly, sir—and I realize that it is not normal, and it is frowned upon by the Navy, but it is not unusual.

Senator LEVIN. There is another memo which I have some problems with, Mr. Arny, and that is really an exchange of memos between you and Mr. Piersall, which we are going to put in front of you now.

First, there is an October 9, 1984 letter from Wedtech to NAVFAC, which requests an extension, a time extension, for the delivery of the first causeway section. Now, that letter has two memos on top of it. The first memo is dated October 10, 1984, and it appears to be in your handwriting, signed by you.[2]

Here is what the memo says—it is quite clearly addressed to Charlie Piersall, and it says, "Charlie, please take a look at the attached letter. It has been signed, but not released." And then you say, "I am leaving for Norfolk with the tide, so to speak, but I will be back this evening. I would like your comments as soon as you can give them to me. Should the letter be sent?" You are asking Piersall should Wedtech send that letter?

Mr. ARNY. Yes, sir.

Senator LEVIN. Why would you be giving Wedtech advice as to whether to send the letter to the Navy?

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[1] See p. 283.

[2] See p. 270.

Mr. ARNY. As I recall, the Washington—Mr. Bragg, I believe—said they are going to send this letter; is it going to cause—and I do not remember the gist of the conversation. It was not unusual for a Washington representative to say we are concerned about something, we are going to send a letter, but if that is going to upset the system, we do not want to do that; we just want to express our concerns.

Senator LEVIN. You are saying it is not unusual for a Washington representative to ask advice from someone in your position as to whether or not his client should send a letter and for you then to be giving him advice as to whether to send that letter or not?

You are saying that is not unusual?

Mr. ARNY. No, sir, it was not unusual.

Senator LEVIN. Can you give us some other examples from your files?

Mr. ARNY. I could try, sir, but this——

Senator LEVIN. Can you remember anything like that?

Mr. ARNY. I will have to search, but not specifically, sir. I did not feel at this time that this was an unusual request. If we are going to send a letter, is there going to be a problem with that? And it was my impression that the Washington rep wanted to maintain as good a relationship as possible with the Navy system.

Senator LEVIN. Here is the response you got from Charlie: "Dear Wayne, The schedule proposed by Wedtech will not support the load-out of lighterage established by MSE. DCASMA and NAVFAC will feel this letter is another smokescreen for Wedtech's problems. It may be, to an extent." That is what he is telling you; this may be a smokescreen that Wedtech is raising to an extent. "But if there is any validity to the extent of the problems he portrays, he will have an excusable delay."

Then he says, "I recommend Wedtech send this letter."

"I recommend"—I mean, he is advising that Wedtech should send this kind of threatening letter to the Navy. I mean, you are not Wedtech's Washington representative; Mr. Bragg is.

Mr. ARNY. Yes, sir.

Senator LEVIN. Why are you and Charlie recommending that they send a letter to NAVFAC?

Mr. ARNY. Again, sir, it was a request by a Washington representative. I was going to find out not only what the system's response would be, but also whether or not, from Mr. Piersall, who was doing the study, was the letter true or false.

Senator LEVIN. He says he does not know. He says, "It may be a smokescreen to an extent. But if there is"—he does not say it is true or false—he says, "If there is any validity to the extent of the problems, he will have an excusable delay."

Mr. ARNY. Yes, sir. And that was part of the debate from the first meeting between the SBA officials and the NAVFAC officials as to whether or not the pumps were in fact a cause for delay.

Senator LEVIN. Are you troubled by the appearance of this now, looking back, where you have got Bragg, who is connected with Nofziger, obviously well-connected, and you know the history of the original Army contract, that there was a White House meeting, or you have read about it, I presume——

Mr. ARNY. I do now, sir.

Senator **Levin**. Are you troubled by the appearance of your office giving advice to Wedtech to send this letter, recommending that they send a letter pressuring the Navy—does that bother you now? Does that appearance trouble you now?

Mr. **Arny**. On this particular contract—going back to the original context, sir, no, it does not. The Washington representative asked a question; I got an answer from the system.

Senator **Levin**. That you recommend they send it, not what the effect will be, but just you recommending they send a letter to ask the Navy for an extension, when you know that the extension has been a problem, is creating all kinds of difficulties for our forces in terms of not having these pontoons.

Why should you be recommending this letter?

Mr. **Arny**. The question was, as I recollect, is there any reason why we should not send this, and I——

Senator **Levin**. No. It says, "I recommend Wedtech"——

Mr. **Arny**. I know what Captain Piersall said.

Senator **Levin**. And you ask him, "Should we send it?" and he is saying, "Yes, I recommend they send it." And then I presume, by the way, you passed that recommendation on; did you?

Mr. **Arny**. I assume so, sir.

Senator **Levin**. And you passed that on to Mr. Bragg?

Mr. **Arny**. Yes, sir.

Senator **Levin**. I am going to have to run and vote. We are going to have to take a 10-minute recess—or, until Senator Cohen comes back.

Thanks.

[Short recess.]

Senator **Levin**. We will come back to order.

Mr. Arny, let me go back to your testimony on the exercise of the 1985 options. I believe it was your testimony that there had to be a good reason not to exercise the options, basically, and there had to be some, as you put it, solid technical reasons, not just slippages.

Mr. **Arny**. Yes, sir.

Senator **Levin**. And we have heard testimony over the last couple days as to some pretty solid technical reasons—I am wondering whether or not you are aware of them, in terms of the use of uncertified welders, in terms of the woefully inadequate progress reporting, in terms of the poorly managed, inadequately documented quality control, the failure to produce solid corrective actions, the safety and hygiene practices, the late payments of subcontractors. In fact, I think even your memo, dated—I do not have the date at the moment—indicated that 17 of Wedtech's first 112 pontoon sections passed their initial test, in other words, only 17 of the 112. And I believe that was before the first options were exercised, was it not? [1]

Mr. **Arny**. I do not remember that number in those terms.

Senator **Levin**. I think that is the top memo on your stack.

Is that your handwriting?

Mr. **Arny**. Yes, sir, it is.

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[1] See p. 250.

Senator **Levin**. It says there are 112 cans in progress, only 17 passed—I believe that that is the initial test—I cannot read the word in front of "test"; what is that?

Mr. **Arny**. "Air test."

Senator **Levin**. "Air test." At the top of that, in your writing, you say, "Facilities—no roof; electricity—still no power"—aren't those good, solid technical reasons not to exercise the option?

Mr. **Arny**. I believe this was—if I had to guess, this was a meeting I believe I had with—I am not sure when this was, sir. Again, if I recall, that was a report that one of the staff was giving to me, and I think it was early. They talk about an inspection date of September—I am not sure when——

Senator **Levin**. Have you seen these documents before, like that document?

Mr. **Arny**. Yes, sir. I have seen this before, and I believe this was very early on.

Senator **Levin**. All right. Did you see them before today's hearing? Did you know I would be asking you about this at today's hearing?

Mr. **Arny**. I have had this in my files; I have looked back through this.

Senator **Levin**. You have looked at that before today's hearing?

Mr. **Arny**. Yes, sir. But again, I based the decision to go with the option on Captain Piersall's report and Captain de Vicq's basic concurrence with that report.

Senator **Levin**. Well, I read part of Captain de Vicq's answer to that report. Captain de Vicq never recommended that you go with that first options, did he?

Mr. **Arny**. Yes, sir.

Senator **Levin**. Only after the fall had passed, isn't that correct, the "window," as he put it, had passed not to exercise it in an practical way. In the spring of 1985 when it was exercised, it was then too late, in his view. But is it not true that in the fall of 1984, he recommended against the exercise of those options?

Mr. **Arny**. That was the discussion at the first meeting I attended, which is what caused me to ask Captain Piersall, because I had two very hostile parties arguing with each other over facts. So I asked Captain Piersall to take a look at it and to provide me an assessment.

As I recall, he eventually agreed to it, and his concurrence, which I have, his response to Captain Piersall's letter—let me take a look at it——

Senator **Levin**. That, as I understand it, time-wise, was in 1985, is that correct?

Mr. **Arny**. No, sir. This was right after Captain Piersall's letter to me.

Senator **Levin**. Does the 1984 document that you are referring to make any recommendation on the options?

Mr. **Arny**. I am not sure it made a specific recommendation, but if I recall from my statement, because I took the quote out of there——

Senator **Levin**. Which statement now are you using?

Mr. **Arny**. My statement. I took the quote out of here. If you would just give me a second, I will find that.

Senator **Levin**. Sure.

Mr. **Arny** [perusing documents]. On page—in my handwriting, it is page 4, but it is item 10—it says, "We continue to be pleased with the observable quality of Wedtech fabrication work. Both Wedtech and this office continue to be distressed by quality shortcomings exhibited by one of Wedtech's subcontractors."

"In summary," on the next page, it says, "I am optimistic about quality, pleased with Wedtech's cooperation, and deeply concerned about the current and potential delivery schedule slippages." [1]

Senator **Levin**. Is there also a line there that says:

> The fact remains that Wedtech's most current projections show test and delivery schedule slippages which will result in our inability to provide powered causeways when required. Initial loading of any of the first three MPS ships, the first-article test schedule provided orally by Wedtech to Captain Piersall's team, calling for testing to commence the first week of October with delivery to the Government by October 15th, did not occur."

That is also in that report; is that right? [2]

Mr. **Arny**. Yes, sir. This was a fixed-price contract, as I understood it, and——

Senator **Levin**. With a time schedule.

Mr. **Arny**. Yes, sir. But again, if time was late, we paid no more money. We were, again, in the 8(a) program, and I was getting reports from both Captain Piersall and Captain de Vicq that their quality was good and that they had the potential to meet a schedule. And no one could offer me—and I asked—no one could offer me an alternative to Wedtech other than to stop it completely and go out with contract to big business.

Senator **Levin**. Let me ask you about your relationship with de Vicq. You indicated to my staff that you felt he failed miserably as a manger on the pontoon contract, and he was an obstructionist, he was in over his head—things like that.

What was your view of de Vicq—is that an accurate statement as to what you told our staff?

Mr. **Arny**. That is what I felt. As a result of the initial meeting, in which he was very hostile with SBA, I then went and checked with people I knew that were in the Civil Engineer Corps, and their response was that Captain de Vicq was tough but fair, and I accepted that.

My concern was I wanted him to be tough but fair, but I also wanted him to be helpful to the contractor, in order to bring this minority firm up-to-speed within his limits and within our limits, and I did not want him to be adversarial, and I felt that he was adversarial.

Senator **Levin**. Did you feel he was an obstructionist? Did you use that word with my staff?

Mr. **Arny**. I do not recall. At times, I felt he was an obstructionist. But it was not so much Captain de Vicq as it was my feeling that nobody within the system wanted to do 8(a).

Senator **Levin**. Well, let me just talk about your relationship with de Vicq, because it is important. Did you indicate to the staff that you felt he had failed miserably as a manager on this contract?

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[1] See pp. 281, 282.

[2] See p. 281.

Mr. ARNY. I recall saying words to that effect, yes, sir. That was my impression.

Senator LEVIN. And de Vicq testified yesterday that you told him he was "riding Wedtech too hard;" is that true?

Mr. ARNY. I do not recall telling him that, but there were times in the very beginning when I felt that he was riding them too hard and was being very adversarial. That was not my feeling later on. I had a proper relationship with him.

Senator LEVIN. de Vicq's personnel records show very, very high marks for the way in which he managed this contract, from Admiral Jones. Does that surprise you?

Mr. ARNY. No, sir, it does not.

Senator LEVIN. Well, I mean, if he was an obstructionist, and riding people too hard, shouldn't that be reflected in his personnel record?

Mr. ARNY. Not necessarily, sir. I felt that in the very beginning. But as the contract progressed, I never had total confidence in him, but he was proceeding properly from the little that I could see.

Senator LEVIN. Did you tell your staff that de Vicq did not do any of the "ILS stuff" that is required on the shipbuilding contract?

Mr. ARNY. That is what I was told later on in the two-year period. It was reported to me that in fact he had not done the Integrated Logistics Support work.

Senator LEVIN. And did you hear Admiral Hughes this morning testify about that, saying that that was not de Vicq's job, that that was Wedtech's fault?

Mr. ARNY. No. I think Admiral Hughes was referring to something different. I am talking about in the very end, I was walking down the hall with Admiral Hughes, and he made the comment to me that he had an unpleasant task to do. He had to go and put himself on report to the Chief of Naval Operations. And I know Admiral Hughes well enough to know that he did not enjoy that. He said, "I frequently have to put the other DCNOs on report for failure to produce their Integrated Logistics Support plans."

And I said, "Why are you doing this?"

He said, "Well, because it turns out there is no Integrated Logistics Support plan for the causeway program." And this was much later in the program.

Senator LEVIN. And did he tell you that that was de Vicq's failure?

Mr. ARNY. Yes, sir, I believe he did; that, as the program manager, he was responsible.

Senator LEVIN. Well, we can ask the Admiral, but I think his testimony this morning was pretty clear that that was Wedtech's failure.

Mr. ARNY. That is what he told me, sir.

Senator LEVIN. He told you that the absence of the ILS plan was de Vicq's failure?

Mr. ARNY. Yes, sir, the program manager's fault.

Senator LEVIN. Let me just ask you one more question in that regard. You were here this morning when Admiral Hughes testified?

Mr. ARNY. Yes, sir.

Senator LEVIN. And nothing you heard changed your mind about that?

Mr. ARNY. No, sir. He was talking about the drawings early on. The drawings had never been raised to me as an issue at my level.

Senator COHEN. We can call the Admiral and just have him come up.

Senator LEVIN. Yes. The Admiral is here.

Do you want to clarify that, Admiral?

Admiral HUGHES. Well, I think we were talking about the drawings, and the drawings were supposed to represent the bill of material on it, and that was part of the backup material, spares, and all that, that would be on the drawings.

I think, in all candor, that Mr. Arny's statement is correct; that there was not a formalized ILS plan that a project manager should have. And as I remember it at that time, I put him to task at developing one.

But that all eventually would have updated the documentation, the Level 3 drawings and the backup to that. So there is a little bit of each in the answer.

Senator LEVIN. I am not sure what you are saying. Let me just clarify this. The ILS materials are due from the contractor, but the plan is supposed to be put in there by the program manager; is that it?

Admiral HUGHES. The requirement for how much Integrated Logistic Support backup we are going to pay for has to be specified by the project manager, and it has to be programmed through the normal process in the Pentagon.

We did not have a complete ILS plan. There were spares that were identified for the materials that were purchased, and they would be reflected on the drawings, but it was not a complete ILS plan. So I would say that Mr. Arny's statement is correct, and my statement is just talking about what was defined within the logistic support backup would have shown on the plans, and it did not.

Senator LEVIN. Was the absence of that complete plan the reason why we did not get what was promised from Wedtech? Did that have anything to do with Wedtech's failures to produce the documents they had promised?

Admiral HUGHES. Yes. Wedtech's contracting should have provided the design, the plans; and to the extent that we identified logistic backup, it would be with the bill of materials there.

We have not gotten those plans yet, even though they were due back in the summer of 1984, I believe.

Senator LEVIN. But does the failure of Wedtech to keep its promises to give you documents have anything to do with the failure to have a completed plan by Captain de Vicq in the file? Does that justify Wedtech's failure to give you the documents that were promised?

Admiral HUGHES. No, absolutely not. They should have given us the documents. Where the documents were lacking in their thoroughness, we would pick up when we looked at the documents and say there is no ILS, or there is not adequate ILS backup here, and we would then make amendments to it.

The fact that we did not get a product and really scrub the whole thing through just contributes to not having it brought to our attention quick enough that we should have had more integrated logistic support within our programming.

Senator LEVIN. So whatever failure there was on de Vicq's part to have that plan in the file, the completed plan in the file, does not justify or excuse Wedtech's failure to give you the documents that you demanded from them?

Admiral HUGHES. That is correct. The deliverable from Wedtech was a contract deliverable, whether it was complete or not.

Senator LEVIN. Thank you, Admiral.

Senator Cohen?

Senator COHEN. I was just going to follow up on what Senator Levin was saying, that you may have placed blame on Captain de Vicq for not pushing harder to get the ILS plans as such. So it is a little bit of both.

Admiral HUGHES. Yes, sir. But it is a separate issue.

Senator COHEN. That does not excuse Wedtech.

Senator LEVIN. You say it is a separate issue?

Admiral HUGHES. Yes, sir. The deliverable from Wedtech was a contract identified deliverable, to have Level 3 drawings delivered to us. What had to be in it and how much it supported was our specifications, so to speak, to tell them. If we were inadequate in doing that, they still had a responsibility to deliver the Level 3 drawings, and they did not.

When I found out that we had inadequate identification of the logistic support, that is when I got irritated with de Vicq and made these comments to Mr. Arny.

Senator COHEN. And that is the conversation you had with Mr. Arny, going down the corridor?

Admiral HUGHES. I do not know what corridor; it is a long time ago.

Senator LEVIN. Thank you. You can return to your seat, Admiral.

Mr. Arny, let me go back now to this letter contract just for one minute, because it is an important document. There has been an affidavit filed by Mr. Moreno—well, my time is up.

Senator COHEN. No; go ahead.

Senator LEVIN [continuing]. Saying that Bragg was offered $400,000 if he could produce the option without negotiation, and $200,000 if he could get the options with negotiation. So that document is significant for that and for other reasons. Whether or not you credit Moreno's affidavit is one issue, but in any event, it is an important document because it means that it was your decision that those options would be awarded without negotiating the price and that that would be left for a later time.

Now, you indicated that you did not know anything about it; you did not know what a letter contract was; that was put in front of you.

I am trying to figure out now just who it is that might have prepared that. You say that you asked the Small and Disadvantaged Business Office where it came from, and a secretary there said it must have come from outside of the Secretariat; so you say it had to have been prepared by NAVFAC or NAVSEA——

Mr. ARNY. My staff checked with the current director of that office. He called—the woman's name, I do not have, but I can get it for the record—who has since retired. He said she recalled this draft coming in from the outside. Her recollection was it was either NAVSEA or NAVFAC, but she had no record. There was no memo as to that.

Senator LEVIN. All right. Now, since it came from the outside, and you were not familiar with it, who on your staff would check it out and give you a recommendation as to whether it was in good form and in good order?

Mr. ARNY. Probably the Small Business Office, since it had come through that.

Senator LEVIN. And who would be head of the Small Business Office?

Mr. ARNY. At the time—I will have to check the timing. I believe that that was Mr. Saldivar at the time, although there was a Mr. Kerr there early on. It may have been Mr. Kerr. I am not sure of the time, sir.

Senator LEVIN. All right. You can check that out for us?

Mr. ARNY. Yes, sir.

Senator LEVIN. Now, you agreed it could not be NAVFAC. I think you told us——

Mr. ARNY. Yes. Well——

Senator LEVIN [continuing]. That they were really upset with the idea of the letter contract.

Mr. ARNY. Yes, sir. I say that only because they were upset. Somebody in NAVFAC may have prepared it and sent it over. I cannot——

Senator LEVIN. Would you agree that it would not logically be NAVSEA, since the contract was not under their command?

Mr. ARNY. I have no idea, sir.

Senator LEVIN. Do you have any speculation as to where that could have come from, that letter that you signed?

Mr. ARNY. No, sir, I do not.

Senator LEVIN. Senator Cohen?

Senator COHEN. Mr. Arny, the reason I asked whether you had copies of these documents is that you seem particularly unprepared to respond to them, and I was wondering whether or not they had been furnished to you in advance. But you have had an opportunity to look through all of these?

Mr. ARNY. I have similar documents, but not from—I got this stack of documents this morning.

Senator COHEN. Well, they are the same documents.

Mr. ARNY. Yes, sir.

Senator COHEN. And, even having gone through those documents, it did not refresh your recollection on a number of those points?

Mr. ARNY. No, sir, not on this one. When I first went through this one, I remember making a recommendation to exercise the contract, and I obviously signed this, because that is my signature. I just remember exercising it.

Senator COHEN. I am trying to put this in some perspective. Again, having served for some years now on the Armed Services

Committee, I have seen what takes place. The reporters do not sit in our markup sessions, but I can assure you it is comparable to watching the sausages being made, where we will have validated military programs, Admiral—and if you think that you were frustrated, you should see what takes place at times with validated military programs being reduced to accommodate somebody's particular special interest on the Committee; it happens all the time, and there is a lot of frustration there as well, except that it is all in private session, and when it comes, we have a nice bill saying, look what a balanced military program we have. So I approach it with that sort of degree of skepticism of what has taken place.

I think a political decision was made in this instance to bring jobs to a region pursuant to a campaign promise. I think that is as clear as can be to me. And I think this particular firm had high-powered enough lobbyists, lawyers, influence in order to direct the contract to them even though they were not capable at the time of performing it. That is just the conclusion I reached some time ago, before you appeared here, Mr. Arny.

The questions that Senator Levin is properly raising—and he has done it by indirection rather than direction—are, number one, did the Administration pass word down through the chain of command to you, as you came in as a relatively new man on the block, to make this contract not only happen, since it had already happened before you got there, but to continue, period.

Mr. ARNY. No, sir, they did not.

Senator COHEN. Did you ever have any discussions with Mr. Pyatt or anyone else that this contract has to continue?

Mr. ARNY. The discussions I had with Mr. Pyatt, I kept him informed of what I was doing, that there was enough dispute between people that the primary factor that I saw in which Wedtech was not performing would be slipping of the schedule; and there were no alternatives other than to leave the 8(a) and go to another contractor who could not produce it as quickly.

I think it is interesting to note that, going back through the records, the contractor was given six months to produce the first article. And when we went searching for a second-source small business, or 8(a) contractor—in fact, by this time, I had realized that it should have been a shipbuilding type operation, not the sheet metal operation that was characterized in the beginning—that contractor said it would take him 18 months to get up-to-speed to do the first article.

So I am not sure that the service—which is, unfortunately, not atypical of what the service does—had not placed too great a demand of schedule on this contractor.

Senator COHEN. The second question that properly should be raised directly—well, it was indirectly—was, were you using Mr. Piersall to give you the rationale to continue?

Mr. ARNY. No, sir. If Mr. Piersall had come back and said it was impossible, I would have recommended to Mr. Pyatt that we terminate.

Senator COHEN. The third question was, were you relying on your staff, or were you at the mercy of your staff. I do not expect you to answer that one, but it is a sincere question, because I am familiar with your background, and I think that Senator Levin is, as well, as a Naval Academy graduate, as a former pilot, a former staff member. And frankly, what takes place up on the Hill here is, you decided to expand your expertise, and the fact is you did not have any expertise in this field; and you left Capitol Hill and went over to the Executive Branch, as so many do—it happens all the time—and you tried to broaden yourself so that eventually you will go out into the private sector and be a more well-rounded expert in the field of defense procurement, acquisition, or whatever it might be.

But we have a situation in which you walk into a job in which a contract is already under way, and you really, basically, did not have the background or the experience to make these kinds of judgments, and were passing it out to your staff, and they were preparing the letters and contract and so forth, and you were signing off on it; isn't that essentially what took place?

Mr. ARNY. Yes, sir. If there was doubt, I was going to give the benefit of the doubt to the 8(a) firm, be it Wedtech or either of the SEASHED firms or the other firms, because of the belief in the 8(a) program. We were trying to bring minority businessmen up to the status of small business or large business. And in terms of total dollar volume——

Senator COHEN. I understand. I think the basic mistake was made that this company should not have been in the business of performing this type of work. I think the Admiral reflected the proper sentiment, that when you need something of this importance and urgency, you do not farm it out on an 8(a) basis to a firm that does not have the background or the experience; and it was done for political reasons rather than military justification, and we are paying the price for it right now.

It does not deal with the whole issue of corruption, because there is evidence of corruption at other levels, and the courts are dealing with that, and that is not our function here.

But I must say that the way in which this was handled from the very beginning was a classic case of politics taking precedence over our military needs.

Mr. ARNY. And as I said in my statement, sir, I was under the impression, and I still am, that this was not atypical, the parts that I saw, of the 8(a) program.

Senator COHEN. That is all I have, Mr. Chairman.

Senator LEVIN. Mr. Saldivar was head of the Small and Disadvantaged Office at the time that this letter contract was signed. Did you talk to him about that letter contract?

Mr. ARNY. No, sir, I did not.

Senator LEVIN. Did you talk to Bragg about it?

Mr. ARNY. I do not recall if I did, sir.

Senator LEVIN. Do you remember whether or not Bragg urged you to proceed in that way?

Mr. ARNY. Sir, I do not remember that.

Senator LEVIN. How much we want to credit Moreno's affidavit is one issue, but again, he was the Executive Vice President of Wedtech and has pled guilty in New York and has given this Committee an affidavit in which he states that he agreed to pay Mr. Bragg $200,000 if the options on Wedtech's contract were exercised, and $400,000 if the options were exercised without price negotiation.

Do you remember any discussion with Bragg——

Mr. ARNY. No, sir, because at no time had I ever assumed that we would not negotiate the price. I assumed that we would come in with a price, and the contractor would come in with a higher one, and we would negotiate down.

Senator LEVIN. When you signed that document, though, which said basically that you would proceed now and negotiate later, did you still assume you would negotiate before you proceeded?

Mr. ARNY. Yes, sir.

Senator LEVIN. Even after you signed the document.

Mr. ARNY. Yes, sir.

Senator LEVIN. Did you read the document?

Mr. ARNY. I read it.

Senator LEVIN. Did it mean much to you?

Mr. ARNY. No, sir, it did not.

Senator LEVIN. And you do not remember talking to Saldivar or Bragg about that?

Mr. ARNY. No, sir, I do not.

Senator LEVIN. But it is possible you talked to either or both?

Mr. ARNY. I do not believe I ever talked to Mr. Saldivar until I interviewed him. I remember seeing Mr. Saldivar in the August 27th meeting of 1984, and then when Mr. Kerr left, we were looking for people to fill Mr. Kerr's job, and his resume came to me, and I interviewed him, and we hired him.

Senator LEVIN. He was hired in October, and this document was signed in November. So my question is, is it possible you talked to either Saldivar or Bragg or both?

Mr. ARNY. It is possible, sir.

Senator LEVIN. Before you signed the document.

Mr. ARNY. Yes, sir.

Senator LEVIN. Now, if in fact it is true—and I say "if"—that Bragg's deal with Wedtech was that he would be paid an extra $200,000 if the options were exercised without price negotiations, how would you react or feel about that?

Mr. ARNY. Sir, I would think that would be impossible, because there was no price that I knew of mentioned for the options, and we were going to have to negotiate.

Senator LEVIN. If in fact——

Mr. ARNY. I do not understand why anybody could have said that, because I did not—we were going to have to negotiate on price.

Senator LEVIN. But the option could be exercised prior to the negotiations. That is what Moreno was saying. If you found out in fact—if it turned out to be true that Bragg was going to be paid an extra $200,000, if the option were exercised prior to the price being negotiated, what would your reaction be to that?

Mr. ARNY. I would think that would be absolutely wrong. I mean, I would object to it, and I would not proceed that way. And I think when Admiral Jones came back to me and said, "We don't want to proceed that way," I concurred immediately. I had no——

Senator LEVIN. Did he explain to you then what a letter contract was?

Mr. ARNY. Not really. He just said he did not want to go that way, and I concurred with him.

Senator LEVIN. Do you think you were taken advantage of when you signed this letter?

Mr. ARNY. I cannot comment on that, sir.

Senator COHEN. Would you have known whether you were being taken advantage of?

Mr. ARNY. I doubt it, sir.

Senator LEVIN. No; the question is do you feel now you were taken advantage of.

Mr. ARNY. If the facts are as you say—and again, the letter came in, as other things did, that I signed, and I made the decision, based on the recommendations, to exercise the options, to proceed ahead with the options—how the system did that was unknown to me at the time.

Senator LEVIN. Isn't it unusual that there is no transmittal notation on that document, saying who it came from?

Mr. ARNY. No, sir. This looks to be typical.

Senator LEVIN. There is a memo in your files that contains a note dated August 8, 1985. It is addressed to "Ev," who I presume is Pyatt, and signed by you. It reports a conversation with "Tom"—I presume that that is Admiral Hughes.

It concludes by saying:

> I also read the appropriate messages over the phone to Mark Bragg. He was as concerned as I was. His bottom line has always been he will support them as long as they produce. His distress at the recent events was evident.[1]

Do you remember what the "appropriate messages" were that you were reading over the phone to Bragg?

Mr. ARNY. Let me—excuse me, while I read this.

[Pause.]

Senator LEVIN. This is August 8, 1985.

Mr. ARNY. From the first paragraph, I assume he is talking about the continuing slips of the program; that I was concerned that his contractor, that he represented, was not performing.

Senator LEVIN. Do you remember, or can you recollect, what these "appropriate messages" were that you were reading over the phone to Bragg?

Mr. ARNY. The messages that I was getting that the slippages were continuing.

Senator LEVIN. Messages from——

Mr. ARNY. From people I talked to; the appropriate messages—I sent him the message that his contractor was not performing, and that he said he was just as concerned.

Senator LEVIN. I see. And what were the "recent events;" do you remember?

Mr. ARNY. Slippages, is all I can say. That is what I surmise, having re-read that. "His distress at recent events is evident." That would be the fact that the contractor was still not performing on time.

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[1] See p. 302.

Senator LEVIN. I talked to you about Captain de Vicq and your feelings about him. Did you ever suggest that he be removed from this contract?

Mr. ARNY. Not that I recall, sir.

Senator LEVIN. And did you ever take any action to have him removed?

Mr. ARNY. No, sir.

Senator LEVIN. Did you happen to know his replacement, by the way, Captain Kelly, before he received that assignment?

Mr. ARNY. No, sir, I did not.

Senator LEVIN. Have you come to know him as a friend since then?

Mr. ARNY. Yes, sir.

Senator LEVIN. And did you have any role in his assignment to that job?

Mr. ARNY. No, sir, I did not.

Senator LEVIN. You have indicated that you were aware that Mr. Bragg was the partner of Mr. Nofziger; is that correct?

Mr. ARNY. Yes, sir.

Senator LEVIN. Senator Cohen has said that it is obvious to him, and it is to all of us, I think, that there was tremendous White House interest in making this thing happen. Were you aware of White House interest in making the Wedtech thing happen?

Mr. ARNY. No, sir, I was not.

Senator LEVIN. None of this was——

Mr. ARNY. No, sir.

Senator LEVIN. For instance, Nofziger's connection to Bragg, for instance, would not be any kind of a signal to you at that time?

Mr. ARNY. No, sir, it would not have.

Senator LEVIN. And the first time you learned of any White House interest in this would be when?

Mr. ARNY. When I read the articles in the press.

Senator LEVIN. When would that be?

Mr. ARNY. I cannot recall. It was after I left the Navy.

Senator LEVIN. Did you ever have any conversations with Nofziger himself?

Mr. ARNY. Not that I recall, sir.

Senator LEVIN. Did you know him?

Mr. ARNY. No, sir, I did not.

Senator LEVIN. And you have never met him?

Mr. ARNY. I think I have met him; I know him by sight, from his pictures in the paper.

Senator LEVIN. Thank you, Mr. Arny.

Senator COHEN. Senator Levin raises a valid point. Suppose it had been Mike Deaver or one of the other White House high-level staffers who have since gone out into the private sector, and they hold themselves out as having access to the White House. That is how they were making their money, much as Mr. Nofziger and others. Would a call from one of the major lobbyists necessarily indicate that it was a White House-approved project?

Mr. ARNY. No, sir. I mean, if they were hired by a company to represent them, and they asked me a question, I either tried to answer it or have other staff answer it.

Senator COHEN. I see. It is one of those problems of ambiguity where, in fact, former White House personnel trade off their ties to the White House so they are able to get the business, and it may or may not have the endorsement of the White House. In this particular case, I think it did.

One final question, Mr. Arny. Did Mr. Bragg ever offer you a portion of his fee, for example, on the $200,000 versus the $400,000, by virtue of whether or not there were negotiations or no negotiations?

Mr. ARNY. No, sir, he did not. I did not even know about it until I read it in the paper.

Senator COHEN. Did you ever have any offers to go with the Nofziger/Bragg firm?

Mr. ARNY. No, sir, I did not.

Senator LEVIN. How about with Wedtech?

Mr. ARNY. No, sir, I never did.

Senator LEVIN. You are the only one, probably, who has not.

Mr. ARNY. There again, part of the problems with no competition in the 8(a) program, as I mentioned in my statement, is that the 8(a) firms seem to believe that they get their programs, since they are all sole source, through Congressional pressure and other outside pressure.

I received far less lobbying on Wedtech than I did from many other firms, not only 8(a), but small business and large business. In fact, the SEASHED program was a classic example. Not only did the president of the company come to our office—because again, we were in a situation with two producers, and we were going to have to make a noncompetitive decision on the quantities, and that meant profit and loss to them. It was intimated that both of them were in districts of powerful committee chairmen or ranking minority members. Never on any other program did I have a sitting Congressman come down to my office to talk to me, as I did on the SEASHED program, nor did I ever have representatives from the Governor of the State come in. But that was not atypical of what you expected from 8(a) because, I believe, it was noncompetitive.

And I spent the two years I was there working to bring competition into the 8(a) program so that we could get away from that. And it was, as I said in my statement, a difficult effort because there was so much opposition to putting competition and taking it out of the sole source.

Senator LEVIN. Mr. Arny, I just must comment on one thing that Senator Cohen raised, and that is the extent to which we are dependent on staff. de Vicq was Navy, and you were there less than a month when he was telling you, for God's sake, do not exercise these options, and the SBA was differing with him. It was not quite—and here, I have a different point of view—it was not quite like a battle between two staff members that you had to try to figure out a way to resolve. You had your Navy recommendation in the fall, and that was against it.

Mr. ARNY. I do not consider that my going to Captain Piersall was unusual, because I knew Captain Piersall had experience, I knew he had gone through the pains of bringing two 8(a) contractors onboard, and I was trying—with two unknowns—I had the SBA telling me that, "We have awarded this thing, and you are obstructing it." I had Captain de Vicq saying that, "We do not want to award the options."

I called on Captain Piersall and relied on his expertise.

Senator LEVIN. Remember, now, you had your program manager telling you one thing——

Mr. ARNY. Yes, sir.

Senator LEVIN [continuing]. You had SBA, from another organization, of course, telling you another thing, not quite totally different, by the way, but in some respects different.

Mr. ARNY. Yes, sir.

Senator LEVIN. It is not quite like having two staff members who disagree and looking for a third alternative. This is your program manager.

Mr. ARNY. Yes, sir.

Senator LEVIN. And he felt very strongly about it. So if you were a prisoner of your own staff, in a sense, you would have gone with your program manager, it seems to me.

Mr. ARNY. That is why I asked for an outside opinion. And he was outside; he was a Navy captain, with experience in sealift and 8(a). I do not consider it unusual to have asked him for a second opinion.

Senator COHEN. Just to clarify Senator Levin's disagreement with me, I doubt very much whether any Senator relies upon a staffer who is assigned for a particular subject at the exclusion of all other competing voices.

Senator LEVIN. No, I was just saying that you were not a prisoner of your staff. Quite the opposite, you did not follow your program manager's recommendation on this.

Mr. ARNY. If Captain de Vicq—and again, this is supposition—you know, I gave Captain Piersall's recommendations to Captain de Vicq, passed them out formally, and——

Senator LEVIN. I am talking about before you went around your program manager. I am not talking about how he reacted. We have gone through that, and he made it clear he disagreed with de Vicq. You were faced, after a month in the office, with a program manager who said, "Don't exercise these options."

You had the SBA out there, which was advocating something else, although they had plenty of problems with Wedtech, in their own report. And what you did is you went to someone outside.

Now, you say that that is ordinary. And I would like you to supply for the record, if you could——

Mr. ARNY. Well, I am not sure that it is ordinary, sir, but I do not consider it out-of-the-ordinary. That is why I also asked NAVSEA, through the Supervisor of Shipbuilding, to take a look at it. It was very controversial from that meeting, because I had a hostile Captain de Vicq and a hostile SBA, with two recommendations. They were going at each other, back and forth. I did not even know what Wedtech was or what SEASHEDs were or what causeways were.

So I am asked to make a decision, with no facts whatsoever, and I have two opposing views. I went to a man who I knew had some experience and was sitting in the room so that he heard it, and he had already gone and had a more successful experience with 8(a). If he had recommended against it, if Captain de Vicq had still opposed this——

Senator LEVIN. Let me close my portion—Senator Cohen may want to add something—by telling you what his conclusion was, your outside review. "The Navy should clarify its program control responsibilities."

"The Navy should review and revalidate the contract data requirements."

"The Navy should contractually formalize configuration."

"Production progress should be monitored against the contractor's milestone schedule."

"The Navy should initiate necessary action." [1]

Everything he came down with was what the Navy should do; one thing that Wedtech should do—one thing—which is that they should ensure that complete technical data is submitted.

Mr. ARNY. Yes, sir. Those were——

Senator LEVIN. Now, all I can tell you is, given this background with Wedtech and what was known about their inadequacy and their ineptitude and their failures to meet schedules and their lack of electricity and their lack of facilities and their lack of skilled welders, and everything else, this report, this "quick look," this "quick see," by some outsider, who did not have any background in this contract——

Mr. ARNY. Oh, I disagree, sir, I disagree.

Senator LEVIN. In this contract. He was not the program manager on this contract. You had a program manager on this contract, who you felt was riding Wedtech too hard.

Mr. ARNY. At that time, sir, all I knew is I had two opposing views, and I was asked to make a choice between them.

Senator LEVIN. Okay. We are repeating ourselves. One of those views was the program manager's——

Mr. ARNY. Yes, sir, it was, and——

Senator LEVIN [continuing]. Another one was SBA.

Mr. ARNY. And indeed, if I could go—I believe you are reading from Captain Piersall's interim report——

Senator LEVIN. Yes.

Mr. ARNY. Interim report or final report?

Senator LEVIN. Final.

Mr. ARNY. Could I see a copy of that?

Senator LEVIN. It is in the packet of documents. This is his "quick look."

Mr. ARNY. [Perusing documents.]

Senator LEVIN. It is on page 10.

Mr. ARNY. This was his interim report; this was his interim "quick look," and then he sent me a final report. Which page are you on?

Senator LEVIN. Ten.

Mr. ARNY. "Power Causeway Assessment Report of 28 September"?

Senator LEVIN. Yes, recommendations.

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[1] See p. 254.

Mr. **Arny**. Yes, sir. And his conclusions were that, "Wedtech has the resources necessary to meet the Navy's operational requirements for CSPs, including the option quantities."

Part of my concern as I read this was that, as I talked to him, these were things the Navy should have done by this point in the contract, but had not done. So there was evidence to me that there was blame on both sides of the issue. And given the doubt, and given his conclusion that they had the resources necessary to meet the requirements, I concluded, and Captain de Vicq then agreed with me and said he was optimistic about quality, that he——

Senator **Levin**. But not about time, was he?

Mr. **Arny**. No, sir, not about time.

Senator **Levin**. Were you optimistic about time, that they could do it on time?

Mr. **Arny**. I was not optimistic, but I was hopeful. And again, it was my impression, especially after the fact, that the time frame that we laid on this contractor was impossible for any contractor to meet.

Senator **Levin**. Did you reach the conclusion following this report, Charlie's report, that they could produce the materials on time?

Mr. **Arny**. Yes, sir—well, again, I was optimistic about time, but not fully convinced about time. But again——

Senator **Levin**. Did you think Charlie was convinced about time?

Mr. **Arny**. I was convinced that he felt that with the proper circumstances, they could do it on time.

Senator **Levin**. Your note to Pyatt was, "Here is Charlie's report to me on his 'quick look,' his bottom line is that Wedtech can produce the causeways, including options, on time." And that is the way you——[1]

Mr. **Arny**. Yes, sir. That was out of his interim report, I believe.

Senator **Levin**. Isn't that a cover note to the final report?

Mr. **Arny**. Yes, sir. "There is little room for slack, but it appears that Wedtech can deliver 10 CSP to support deployment of the first MPS, if Government-furnished pumps are delivered to new schedule."[2]

We were not at fault. Now, whether or not we could work around those Government-furnished pumps was an issue that—it did not affect the outcome—but in fact, we were contractually obligated to deliver those pumps on time, and the Government had not. They delivered pumps, and the pumps were faulty, and we had to go back and rebuild them.

Senator **Levin**. I will try and make this my last question. I just want to make it as direct as I can. Your assessment of Charlie's "quick look" was, his bottom line, that Wedtech can produce the causeways, including options, on time; that is the way you read that?

Mr. **Arny**. Yes, sir.

Senator **Levin**. Senator Cohen?

Senator **Cohen**. Just one final point, Mr. Chairman. I think that again, given Mr. Arny's circumstances, had he not gone outside and sought a third opinion, he might have been subject to criticism for having relied upon a program manager and then incurred the wrath of the SBA.

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[1] See p. 257.
[2] See p. 258.

So, Mr. Arny, I do not fault you under the circumstances, for seeking "outside advice" of a man who has had experience in the shipbuilding field, particularly with respect to SEASHED. I do think, however, that you were not in a position to make the kind of judgments that you were called upon to make, having just recently arrived on the job, and I think that some of these decisions were made, and you signed off on, without fully appreciating what the significance was.

Senator LEVIN. In addition to the program manager urging you not to do this, was Admiral Hughes also urging you not to grant the options in the fall of 1984?

Mr. ARNY. I do not recall a specific memorandum, but I assumed that—I assumed that he was.

Senator LEVIN. If in fact he did recommend against these options, it was more than the program manager, then, wasn't it?

Mr. ARNY. Well, sir, once Captain Piersall's report had gone out and Captain de Vicq then agreed to the 1985 options, it was not a case of time, I believe.

Senator LEVIN. Captain de Vicq agreed to the options in the spring of 1985——

Mr. ARNY. No, sir, no, sir. I believe he had dropped his objections after, basically, in his memo, he said, "I am still concerned about slippages, but I am optimistic about their quality." I read through his——

Senator LEVIN. Did de Vicq respond to Piersall's report?

Mr. ARNY. Yes, sir, he did.

Senator LEVIN. And did he say, relative to his recommendation on the options, "No comment"?

Mr. ARNY. Let me get it. [Perusing documents.]

Senator LEVIN. Does it say anything about the options at all in——

Mr. ARNY. I am not sure it did. He said he was optimistic about quality——

Senator LEVIN. But it was silent on the options issue.

Mr. ARNY. I would have to go back and take a look at it.

Senator LEVIN. Do you want to do that, and tell us if it was silent on that issue?

Mr. ARNY. [Perusing documents.] "And in summary, I am optimistic about quality, pleased with Wedtech's cooperation, and deeply concerned about current and potential delivery schedule slippages."

Senator LEVIN. My question is, is it silent on the options issue?

Mr. ARNY. Apparently, it was.

Senator LEVIN. Thank you, Mr. Arny.

Mr. ARNY. But he said in his statement, I believe, that he supported the 1985 option.

Senator LEVIN. When—his statement was very clear yesterday that he opposed those options until the spring of 1985 because the window had closed; the time to oppose it was in 1984 because of time pressure. In the spring of 1985, there was no longer any option. That was his testimony yesterday.

Mr. ARNY. Okay. Again, it was silent on the options, and when he was optimistic about quality, my concern was this was an 8(a) firm, could they produce quality if they had a chance to get back on-line.

Senator LEVIN. Thanks.

We will reconvene at 1:30.

[Whereupon, at 1 p.m., the Subcommittee was recessed, to reconvene in the afternoon of this same day.]

AFTERNOON SESSION

Senator LEVIN. Mr. Pyatt, while you are standing, would you raise your right hand? We are swearing all witnesses.

Do you swear that the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you, God?

Mr. PYATT. I do.

Senator LEVIN. Mr. Pyatt, you can proceed as you wish. You are an old hand at testifying in front of Congressional committees. You have got about a 6-page statement, and you can either give it or summarize it.

Mr. PYATT. I would prefer to summarize it. It is the normal way I do these. I think you have questions, and it would help to get on to the questions that you wish to raise.

Senator LEVIN. Fine.

TESTIMONY OF EVERETT PYATT, ASSISTANT SECRETARY OF THE NAVY FOR SHIPBUILDING AND LOGISTICS [1]

Mr. PYATT. I think, in looking at the 8(a) program, we have to recognize that the Congress has given us the responsibility to carry out minority business, to conduct it, to implement the 8(a) program in conjunction with the SBA.

One of the objections that I have had to this program, and I have discussed with you in other meetings, has been the noncompetitive or sole-source nature of this work. We have at times proposed ideas that would make 8(a) programs competitive. I think that it is time to re-raise those issues.

One of the things, from a manager's point of view, is the 8(a) program, because of its nature of developing new businesses and minority business, encourages the Service, in our case, to take risks in procurements that we would not take dealing with other firms. This means that we take risks in helping get started; we have to bend over, in my view, a little more than we would with some of the larger firms because, as I interpret, the intent is to help a business form and grow.

But one of the things in this is the split responsibility between the procuring agency and the SBA, and that, I think, causes some of the troubles in source selection. We did not make the source selection in this case.

I would like to briefly summarize my recollection of events. I became aware of the interest in SBA to set aside the causeway program in the summer of 1983. There are numerous correspondence from Members of Congress that we have provided to you earlier. But because of the size of the program, I felt that it was not a good use of the 8(a) program, and I would much prefer to have bid it as a small business set-aside, where we could have competition, and we could have Navy in charge of selecting the contractor.

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[1] See p. 198 for Mr. Pyatt's prepared statement.

In fall of 1983, we had our first request from SBA to set aside the entire program. We turned it down. Mr. Sanders asked to meet with me, and I met in his office about it. He told me that as a matter of policy, they wanted to promote metal fabrication as a minority business initiative. This was something I had not thought of, and I agreed to reconsider my previous views on the subject because I felt that that was an honest policy initiative that was well within the scope of SBA and well within the scope of what we should consider in cooperating with them.

They agreed to forward the names of candidate contractors so we could evaluate their capabilities.

On January 6, I advised them we would consider setting aside the entire procurement. And then, subsequent to that, we proceeded to look at the various candidates. They sent us over what I would call a combine of candidates, including Wedtech and some others, and we began an evaluation.

At that time and subsequent to that, I was not aware of any political pressure exerted by SBA or anyone else to continue with the award. I was operating entirely under the framework that Mr. Sanders outlined to me.

After the evaluation of Wedtech's capabilities by their prospective program manager, followed by extensive negotiation with Wedtech over price, we awarded the contract at our estimate of fair market value; and then subsequently exercised options.

Prior to the termination of the contract for default in December of 1986, in which we sent the default notice to SBA because they are the prime contractor, 65 powered and 127 nonpowered causeways were satisfactorily delivered, completing the 1984 base contract and the two 1985 options. At the time of default, none of the hardware of the 1986 options had been delivered, although pieces and supplies had been ordered, and we have taken possession of those.

The rest of the situation is currently in Chapter 11 proceedings, and I am not familiar with the status today.

During the execution of the project, there were reports of delays in the delivery schedule, quality assurance, cost performance, and these happen; they are part of doing business with anybody. And we were trying to sort out exactly what the facts are, what is the best way to proceed.

I asked the Commander, Naval Sea Systems Command, to conduct independent reviews of Wedtech's capability to perform the options under the contract. These reviews resulted in the award of the 1985 and 1986 options.

In retrospect, the performance of Wedtech prior to default was satisfactory despite initial start-up problems—arguably caused by the Navy as well as the contractor. One of the problems we get in putting a new piece of hardware into production is there are start-up problems, drawings are not right, mistakes are in them, and those interfere with the manufacturing process, and that is part of the Navy responsibility.

The end result was about two-thirds of what we ordered was delivered; it was late from the original schedule. But its total impact on military readiness was, I think, not significant. That was one of the issues that we talked about as we went through it with Admiral Hughes.

But from the point of view that we originally got into this thing, from the Congress promoting 8(a) programs and promoting the developing of minority business, I consider it a failure because what got started was not sustained.

One of the things that I hope these hearings can consider is the way 8(a) programs should be conducted in the future. I think there is a lot to be learned in the process of conducting programs and the rules that we proceed under, and I hope that in it, we will be able to talk about possibilities for improvement.

8(a) competition, similar to those conducted in small business set-asides, I think would be appropriate.

I have mentioned to you before, and I continue to mention, we probably get more Congressional mail about 8(a) firms than any other set of contractors in the United States. It is clearly viewed as a way to get approval, to get the Congressmen to kick the Executive Department until they agree, and one learns to be stubborn in those situations.

I would also recommend that you consider a process providing the procuring agency to perform the source selection, rather than the SBA. The SBA should certify businesses are minority businesses, similar to their function in certifying small businesses.

We know we have an obligation under the existing law to provide 5 percent or more of defense business to minority firms. A lot of people have said that that business base is not available, and we will have to take more risks in doing that volume of business. So I think the future is very rocky in achieving that—but it has still been Congress' decision that we have to.

I think that summarizes my remarks, and I know you have lots of questions.

Senator LEVIN. Thank you very much, Mr. Pyatt.

First of all, let me ask whether at the time in question, you were the Assistant Secretary of the Navy for Shipbuilding and Logistics?

Mr. PYATT. No, sir, I was not. I was the Principal Deputy.

Senator LEVIN. And what were the years? Give us the time.

Mr. PYATT. I am sorry, sir?

Senator LEVIN. The year you were Principal Deputy.

Mr. PYATT. I was Principal Deputy from more or less—I was acting in the position in June of 1981 through August of 1984.

Senator LEVIN. And then, from 1984 on——

Mr. PYATT. I was the Assistant Secretary.

Senator LEVIN. So you are now the Assistant Secretary, and you were the Assistant Secretary during the option phases of this?

Mr. PYATT. Yes, I was.

Senator LEVIN. When we met earlier this year, we discussed the 8(a) program and Wedtech. We were beginning to look into this Wedtech situation when you and I spoke. At that time you stated that the 8(a) program itself lends itself to political pressure, and you explained that there are at least 5 or 10 cases a year when the Navy gets severe heat, as you put it, including phone calls from members of Congress, or getting called into somebody's office for a meeting. And you advocated at that time, as you do today, the introduction of competition into the 8(a) program as a remedy to that. Is that fair enough?

Mr. PYATT. Yes, sir.

Senator LEVIN. And does that correctly reflect your current view as to how that program is set up?

Mr. PYATT. I think a process that we have to carry out, document, justify, be available for a protest should one be filed with the GAO, is the proper way to proceed.

Senator LEVIN. The first time that the issue of the set-aside on the pontoons, as I understand it, came up in the summer of 1983, and at that time, you opposed the set-aside; is that correct?

Mr. PYATT. That is correct, for the reasons I outline in my testimony.

Senator LEVIN. Why did you oppose the 8(a) set-aside at that time?

Mr. PYATT. I believed that the size of the program and, from what I could tell around that there were no 8(a) firms in the metal fabrication business that were minority firms that could handle a program of this scope. At the same time while I knew there were firms in the small business, particularly along the Great Lakes and in the Southeast, that were fully capable of handling this kind of work.

Senator LEVIN. Did you feel it was inappropriate to start a new shipyard when there were already a lot of idle facilities around the country?

Mr. PYATT. Well, what I feel on that, and in our——

Senator LEVIN. What you felt in 1983; was that one of the reasons?

Mr. PYATT. No, no, that was not one of the reasons. My reason was simply on the basis that the facilities that existed were not in the 8(a) program.

Senator LEVIN. And did you feel there was substantial risk in bringing a new contractor into this business?

Mr. PYATT. I felt any time you do a new product, there is risk involved, and when a new contractor has to come along, there are also risks involved.

Senator LEVIN. And relative to your opposition to this particular set-aside, in the summer of 1983, did you feel there was substantial risk in this particular proposal?

Mr. PYATT. Because of its magnitude, because of the fact it had not been produced before, our design efforts were behind—there is risk, for anybody.

Senator LEVIN. Pardon?

Mr. PYATT. There is risk for anybody.

Senator LEVIN. I just wanted to know whether or not for the reasons you just gave, you felt in the summer of 1983, when you opposed this set-aside, there was substantial risk if you did set it aside.

Mr. PYATT. Yes.

Senator LEVIN. And in November of 1983, November 8th, the SBA Administrator, Mr. Sanders, appealed your decision not to set aside the pontoon contract to Secretary Lehman; is that correct?

Mr. PYATT. That is correct.

Senator LEVIN. And on December 8th, you appear to have changed your mind. You sent a letter to Sanders in which you agreed to set aside the nonmotorized portion of the contract—that was December 8th, 1983—is that correct? [1]

Mr. PYATT. That is correct. That is the piece of it that the design was best under control and could be picked up.

Senator LEVIN. Could you tell us why you changed your mind on this issue between November 8th, 1983, when Sanders appealed your decision not to set it aside, and December 8th, when you changed your mind and agreed to set aside a portion of the contract—what changed your mind in that month?

Mr. PYATT. As I reported in my testimony, Mr. Sanders made the case that he would like to establish the 8(a) program in developing metal fabrication in 8(a) firms. I know enough about this business that that is a legitimate policy goal, and it is a perfectly achievable thing to do, and I knew of no basis to—I explained my reservations about the state of the program; he said he understood those and wanted to proceed, and would I come along. And without a logical objection, again, recognizing this business, I agreed.

Senator LEVIN. Did you meet with Mr. Sanders prior to December 8th, 1983?

Mr. PYATT. I met with him—I am not sure—I met with him two or three times in that previous 6 months or 9 months we met about small business. I know we were trying in the Navy to fully utilize the capabilities of small business, and we met in that regard several times.

Senator LEVIN. All right. But you are not sure if you met with him before December 8th, 1983, or not?

Mr. PYATT. I probably did at earlier times. I met with him two or three times in that 6-month period.

Senator LEVIN. Relative to this contract?

Mr. PYATT. No; relative to Navy——

Senator LEVIN. No. I am asking you, was this contract raised by Sanders with you at any personal meeting prior to December 8th, 1983.

Mr. PYATT. I think at an earlier meeting, he said he would like to get his people into the sealift equipment business, of which this would have been a part, but not related to this particular contract.

Senator LEVIN. All right. Now, what was the reason that you limited the set-aside to the nonmotorized pontoons on December 8th, when you agreed to set aside that particular portion of the contract? Why did you limit it at that point to nonmotorized pontoons?

Mr. PYATT. As I mentioned earlier, it appeared to be the piece of the design that was best under control, that someone could pick up, and was the easiest to do of the motorized and nonmotorized versions.

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[1] See p. 213.

Senator LEVIN. Can you tell us—I am going to have to run and vote. Senator Cohen, do you wish to proceed with your questioning?

Senator COHEN. All right. Let me see if I can pick up the thread of what Senator Levin was going to ask you.

Initially, you were in favor of setting aside this contract, but not Section 8(a); have you testified to that?

Mr. PYATT. I have testified that initially, I was in favor of setting this aside as a small business set-aside for the whole country, competitive.

Senator COHEN. But not Section 8(a)?

Mr. PYATT. But not Section 8(a).

Senator COHEN. When did you become persuaded it should go 8(a)?

Mr. PYATT. Well, first, when we set aside this piece of it dealing with the nonpowered causeways, as I said, it looked to me to be a project that possible 8(a) firms could do, although no particular firms were mentioned, and we were really kind of going in the dark.

Senator COHEN. But what was the factor that came to mind or to your attention that you should even consider going 8(a)? Were you approached by SBA? Were you approached by the White House? Were you approached by some contractor? What was the motivating factor that somehow prompted you to look at 8(a) as possibility on the material side of the thing?

Mr. PYATT. The discussion with Mr. Sanders, and the statement that he said that as a policy matter, he wanted to bring minority businesses into the metal fabrication industry, and then he asked the cooperation of the Navy in doing this.

Senator COHEN. And the Navy initially rejected it?

Mr. PYATT. Yes, sir.

Senator COHEN. And what was the date of the rejection?

Mr. PYATT. In the fall—I am not sure that is right. [Pause.] It may have been in November or thereabouts of 1983, roughly the winter, early winter, of 1983.

Senator COHEN. And then on January 6, 1984, you wrote to Mr. Sanders? [1]

Mr. PYATT. That was subsequent to our meeting. The meeting I described to you was in middle-December sometime.

Senator COHEN. All right. You had a meeting in December in which you had the discussion with Sanders?

Mr. PYATT. Yes, sir.

Senator COHEN. And he persuaded you that there was merit to the case for SBA to set this aside for minority businesses to start upgrading their capability?

Mr. PYATT. He persuaded me that that was his policy goal. I basically had no logical retort to that, because I know that in many places in the country, minorities do this work, and there was no reason why a minority business could not also do it.

Senator COHEN. As a principle, there is no reason why minority businesses cannot do it, but there is a requirement for the Navy, isn't there, that there be some prior expertise?

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[1] See p. 214.

Mr. PYATT. One of my objections to the 8(a) program is that we do not always have that check to make; we are not always allowed that—because of the use of the 8(a) program to develop new businesses, we wind up taking more risks of proven capability than sometimes we would like to take.

Senator COHEN. Well who picks the 8(a) contractor?

Mr. PYATT. SBA.

Senator COHEN. Do you have any authority to override it?

Mr. PYATT. No. There is a negotiation that goes on—it is kind of imprecise to describe—and that is the reason I mentioned earlier that I would hope that out of this review would come a more formal procedure that requires a procuring agency to go through a source selection procedure like we do on other pieces of equipment and document our reasons, which were not done in this case.

Our contract on all 8(a)s is with the SBA, who then subcontracts with the firm. Theoretically, we have no privity of contract with the firm, but practically, it does not work out that way because SBA does not follow through.

Senator COHEN. You made the decision on January 6 to have a set-aside?

Mr. PYATT. Yes, sir. That was basically a response on paper to our discussion.

Senator COHEN. Okay. What was the purpose of having the meeting on January 19 with NAVFAC?

Mr. PYATT. We agreed on the 6th to accept the offer, to look into it. And in my mind, I felt that we would look into whatever firms the SBA came over with and review their capabilities, and if we were not satisfied with their capabilities, I had the full intent of going back and saying we could not handle it.

Senator COHEN. How many firms were involved at that point?

Mr. PYATT. The SBA sent over Wedtech, associated with two or three other firms. It was really one package of several firms.

Senator COHEN. Were you aware of NAVFAC's objection to having the contract go under 8(a)?

Mr. PYATT. Oh, yes. By and large, project managers in the military could easily live without the 8(a) program.

Senator COHEN. What was the purpose of the January 19 meeting with NAVFAC, then?

Mr. PYATT. The purpose was to get all the issues on the table, let the issues be raised that they wanted to raise——

Senator COHEN. It had already been decided. What difference did it make what issues they were going to raise?

Mr. PYATT. Well, we had not decided to go with a particular firm. I had not made up my mind that the firm that we had seen, would see, would be satisfactory. The letter I sent back to Mr. Sanders says, "We will entertain;" it does not say "We will do." People say that was a decision; it was not. We sent a group of people, including the prospective program manager, to the firm, to Wedtech, to review it. They came back with a positive report, which is in your package that has been circulated.[1]

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[1] See p. 236.

Senator COHEN. Had SBA selected Wedtech by January 19, 1984?

Mr. PYATT. I would say yes because of the formation of the package that they sent us; Wedtech was clearly the leader, and they had some subcontractors with other firms that subsequently dropped out.

Senator COHEN. A moment ago, you indicated there were several firms in competition, Wedtech and several others.

Mr. PYATT. No; I am sorry if I confused you. The way they put it together, Wedtech was the lead contractor; several other firms were with them as associates. It was not a competition; it was a package.

Senator COHEN. Now, was a pre-award survey done on the initial pontoon contract?

Mr. PYATT. Yes. We sent the program manager up there with a team, and———

Senator COHEN. Would you just check your notes on that, as to whether a pre-award survey was done on the original contract?

Mr. PYATT. Wait a minute. I am sorry. The pre-award survey, the way a pre-award survey is normally defined, was not done. Let me correct that. What we sent up was—we had a negotiation that lasted over several months that was effectively a pre-award survey, but the initial thing that we did was send the program manager and a group from NAVFAC up to Wedtech to review the facility, review their capabilities, and make a judgment on whether or not they thought the firm could produce.

The report they gave back on the 6th of February was—and this is the conclusion—"Contractor can technically and physically do the job. However, he cannot meet the schedule." [1] And that became the issues that we began to debate: What was the importance of meeting the schedule? Should we take the risk of not making the schedule? What is its impact on the fleet? What is its impact on the overall readiness? And that discussion went on, and I think Admiral Hughes related part of it this morning. But it was one of the issues of risk that we had to consider in doing the program.

Senator COHEN. Was there any particular significance to the fact that the SBA Administrator had urged you to have this contract go 8(a)? Has that been done before?

Mr. PYATT. Oh, yes. They are on us all the time.

Senator COHEN. No; I mean Jim Sanders contacting you about a specific contract going 8(a).

Mr. PYATT. Sanders was an activist, and he contacted me about several programs that we dealt with with SBA, both small business and 8(a), by telephone. We recognize the importance that Congress places on small business and 8(a), and he was trying to implement it, and I was trying to cooperate.

Senator COHEN. But does this happen frequently? Is that what you are saying?

Mr. PYATT. I do not know what you call "frequently," but a few times a month, by telephone, or a couple, three times a month.

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[1] See p. 239.

Senator COHEN. So in other words, it is not unprecedented for the head of SBA to contact you or your department to urge that a particular contract go by way of Section 8(a)?

Mr. PYATT. With Jim, it was not.

Senator COHEN. Did you place any particular requirements on the type of facilities that the contractor has to have in order to qualify for a set-aside?

Mr. PYATT. No. We only asked the program manager to go up and review and give his opinion.

Senator COHEN. Well, did you think that Wedtech's facilities were adequate to perform?

Mr. PYATT. He did. He also mentioned that they were kind of rudimentary, but in this business, any steel fabrication, you expect to see dirt floors, and you expect to see open work.

Senator COHEN. Did he ever say that the conditions were "frightening"?

Mr. PYATT. No.

Senator COHEN. As he has testified to before this committee.

Mr. PYATT. I was surprised by that testimony.

Senator COHEN. He never raised that kind of an objection——

Mr. PYATT. No. Here is his written report, and in that report which we received, there are no words like that. There are words in here that they need to be upgraded, and they need improvements, but certainly nothing that I would characterize as "frightening."

Senator COHEN. No informal statement—I mean, it might be one thing where he puts something formally in the record, saying it needs upgrade, but he might come to you privately and say, look, this place is a shambles, no roof, no electricity, no facilities.

Mr. PYATT. We had meetings in this process, and all discussion that I recall was all in the context of they have a new facility to build, and they have changes to make, but no issue about they cannot make them.

Senator COHEN. Did you ever advocate a competitive set-aside?

Mr. PYATT. Lots of times, at every possible opportunity.

Senator COHEN. On this particular one, to Mr. Sanders?

Mr. PYATT. I think that this really occurred before my theory of competitive 8(a) set-asides evolved. We have done others since then, with the objections of people, but I do not believe I discussed that or even thought about it at the time this evolved.

Senator COHEN. In your interview with the Subcommittee staff, you stated that Captain de Vicq was "an obstructionist and did not know what he was doing;" do you recall making that statement?

Mr. PYATT. Oh, yes.

Senator COHEN. There is no hesitancy in your voice.

Mr. PYATT. No, no. Captain de Vicq was a great puzzle to me. And we talked at times, and talked about it directly with him. He came back with this report, which you have in the documents, and then it appeared that his relationship and working relationship with the contractor deteriorated over time. And in the discussions that I had—and that is the reason I characterized him as "obstructionist"—in it, I was unable to figure out whether the deterioration was a professional observation or a personal observation, being fed up, or something had gone wrong, and that was the reason that later on we commissioned other people in the Navy to also investigate the program and its conduct.

Senator COHEN. Well, do you think that he was—I take it you do think he was too difficult in managing the program?

Mr. PYATT. Well, no—I would never let up on contractors. Lots of contractors around town are complaining about me, and you know that. But I was not sure—in fact, I had several instances that he was not recognizing the problems the Navy owned as part of the design; since we furnish the design, if the design is not right, it is our responsibility—and separating that from the problems the contractor owned for failure to manage his operation. And when we talked to him, I never could separate it, and other folks—I thought it might just be me—could not separate it, either, and that kind of results in that characterization.

Senator COHEN. Is it standard practice for you to get involved in overseeing or passing judgment upon a program manager's performance?

Mr. PYATT. Yes. I am an activist, and for programs that the Navy is on the hook on, I try to keep up with them.

Senator COHEN. So this would not be the only case in which you would have an overview of his particular performance?

Mr. PYATT. Of a particular program manager's performance? Oh, no. There are lots.

Senator COHEN. What was your reaction to Admiral Hughes' objection to the 8(a) set-aside?

Mr. PYATT. I thought they were totally legitimate; I mean, there were things that he should voice. Tom and I have had a very long and professional working relationship; we air our views about various topics to each other as they go on, and we try to sort them out and do what seems to be best at the time.

Tom was concerned that the uncertainties of the 8(a) program, of this program, and the uncertainties of getting on with it would be detrimental to the equipping of the ships, and those, I view, were entirely legitimate concerns.

It evolved that other things occurred that the equipping of the ships for other reasons was delayed; the Marines could not get all their equipment together—and so it had less impact than initially projected. But I think he was raising an entirely legitimate issue.

Senator COHEN. My understanding was the only other candidate at the time for the pontoon contract was Medley; is that incorrect?

Mr. PYATT. In the earlier mail, there had been two or three firms raised. Medley was one of them, and there are some others that I cannot recall. But when the package came over from SBA, Medley was the subcontractor to Wedtech.

Senator COHEN. Well, was Medley less qualified than Wedtech?

Mr. PYATT. In our view, yes.

Senator COHEN. Well, again, "our view"—who made that determination?

Mr. PYATT. We did not have the opportunity to make that determination. But some of our folks were familiar with what is at Medley, and it is not much.

Senator COHEN. So in effect, then, you would have Wedtech being the lesser of——

Mr. **Pyatt**. We were given one choice; we never had the opportunity to make a competitive selection.

Senator **Cohen**. Well, do you have the power to make a different selection? I guess I asked you that question before.

Mr. **Pyatt**. Yes. My understanding of the way the process goes, we do not have the power to run a competition, except we have created it in a couple of cases, as experiments. If someone comes to us, if SBA sends us a firm who we judge is unqualified, we have the right to reject, but it becomes a bureaucratic hassle then, and is just part of this unclear nature between what SBA does and what the procuring agency does.

Senator **Cohen**. Well, do you think that 8(a) has to be changed to give the Navy or the Defense Department or the agency a greater say in the selection of the company?

Mr. **Pyatt**. Yes, sir.

Senator **Cohen**. Have you advocated that?

Mr. **Pyatt**. At every opportunity.

Senator **Cohen**. I will withhold further questions.

Senator **Levin**. On that subject, before we pick up where we left off, your agency did have the right to refuse the selection of the SBA if it wanted to, did it not?

Mr. **Pyatt**. Yes, sir.

Senator **Levin**. And you decided not to refuse that selection, for a number of reasons?

Mr. **Pyatt**. I relied primarily upon a trip report prepared by the NAVFAC people who went up to Wedtech and reviewed their facilities. They came back—and my logic was here was a group of people who did not want this to happen, and they were quite clear about it, quite straightforward; and if they came back with a negative report, we would see what it said; if they came back with a positive report, there must be something there.

They came back with a positive report, and I earlier read their conclusion. It said, "The contractor can technically and physically do the job. However, he cannot meet the schedule."

Senator **Levin**. Was the schedule important to the Navy?

Mr. **Pyatt**. Upon receiving this, this is an issue that Admiral Hughes and I took up between us. And there were elements in this program that were slipping, unrelated to any of this——

Senator **Levin**. I am not talking about—I am just saying was the schedule important to the Navy. That is my question—the uniformed Navy, did they tell you it was important to them?

Mr. **Pyatt**. They told me it was slipping. They told me there was a chance for more slip. We debated about how much. Schedule was important in the overall program. We were trying to get these units activated and equipped, but there were other things going on that made it slip—other things being that the equipment that is supposed to go on the ships, they were having trouble getting it assembled—and so the overall schedule did slip, unrelated to this.

Senator **Levin**. Did the Navy tell you that this schedule for this contract was important to them? Isn't that one of the reasons they recommended against going——

Mr. PYATT. Oh, yes, yes. That was one of the issues in the overall discussion.

Senator LEVIN. So that when you got the memo following the trip report, saying that most agreed in their opinion the contractor could not meet the schedule, you were told that they could not do something the Navy wanted done; isn't that true?

Mr. PYATT. Well, the schedule is not sacrosanct and absolute, and so that is when we started meeting with Admiral Hughes to talk about the impact of schedule slippage, what would it be.

Senator LEVIN. And didn't he tell you on January 4th he was opposed to doing what you did on January 6th?

Mr. PYATT. Well, we had many things over time where we did not agree, and one of us made a decision and went ahead, and the rest of us got onboard and did it.

Senator LEVIN. And did he tell you on January 4th——

Mr. PYATT. He told me on January 4 that he did not think that they would meet the schedule.

Senator LEVIN. And he opposed the set-aside.

Mr. PYATT. And he was opposed—I think I testified earlier in this session that I have never seen a military man supporting an 8(a) program, for the reasons that we have also been through.

Senator LEVIN. All right. The military have told us that they have frequently not objected to set-aside.

Mr. PYATT. I have never seen them support one.

Senator LEVIN. Well, that is not precisely their role; they——

Mr. PYATT. I have seen them frequently object—I am sorry, sir.

Senator LEVIN. I understand. But it is also true that they have frequently not objected; isn't that true?

Mr. PYATT. No. I think the majority would go on the objection side.

Senator LEVIN. And would you say, then, that in a large number of cases, they have not objected?

Mr. PYATT. In a minority number of cases, they have not objected.

Senator LEVIN. All right, a minority have not objected. In this situation, they objected, did they not, loud and clear?

Mr. PYATT. Loud and clear? Tom did not make it a big issue. He said it is something we have got to solve if you decide to go ahead.

Senator LEVIN. Well, I thought he testified this morning under oath that he opposed this set-aside.

Mr. PYATT. He did. He would have preferred not to do it.

Senator LEVIN. Not "preferred not to;" he opposed it, he said, on January 4th, in your office.

Mr. PYATT. When we talked, he did not say, "This is absolutely crazy, and you cannot go ahead," if that is what you mean by "opposed."

Senator LEVIN. No, I am not trying to put words in his mouth. I am trying to say that he testified he opposed this contract being set aside in your office on January 4th. That is all I am saying. Is that——

Mr. PYATT. Yes, that is true. He did not want to do it.

Senator LEVIN. Okay. That is all I am asking.

Mr. PYATT. Okay, that is true, that is true.

Senator LEVIN. He opposed it.

Mr. PYATT. He opposed it. And then we got into the issue of the schedule, the impact of the schedule, and the likelihood of other things slipping.

Senator LEVIN. And did he tell you at that time that the scheduling of the delivery of these pontoons was important to the Navy? Did he tell you that on January 4th?

Mr. PYATT. He told me—I know the overall schedule of the whole project——

Senator LEVIN. I am just asking you—I am trying to ask a straightforward question——

Mr. PYATT. Okay.

Senator LEVIN. Did he tell you on January 4th that the delivery schedule of these causeways was important to the Navy?

Mr. PYATT. Yes, assuming everything else came onto schedule as originally planned. And then we got into those other discussions.

Senator LEVIN. And that one of the reasons he opposed the contract was because he did not feel that they could meet that schedule; is that not true?

Mr. PYATT. That is true, that is true.

Senator LEVIN. All right. That is simple, straightforward. Now, there was a meeting on January 13th, I understand, was this in your office, in a conference room?

Mr. PYATT. Yes.

Senator LEVIN. Okay. And was one of the purposes of that meeting to give the uniformed Navy a chance to continue their objection to the set-aside?

Mr. PYATT. The purpose of that meeting was to get all the issues on the table and have a full airing of the issues, to understand the things that we were looking for, because in my mind, the decision about going with this program as a set-aside was still open.

Senator LEVIN. So it still was an open question.

Mr. PYATT. It still—really, in my mind, the decision really got made when we got this trip report back from the people who went up to the facility and came back with the——

Senator LEVIN. Telling you they could not meet the schedule.

Mr. PYATT. That they could do the work; there was a problem with the schedule. Then we started working on the price, on the schedule, the other pieces of the program; the slippage was becoming more evident, and the schedule impact was less important.

Senator LEVIN. Was the question of whether this would be set aside or not still an open question as of the time of that meeting on January 13th?

Mr. PYATT. Yes, sir.

Senator LEVIN. All right, that was still an open question. The "whether" question was still open?

Mr. PYATT. In my mind, absolutely. We wanted to get the issues on the table.

Senator LEVIN. Well, Mr. Pyatt, I was trying to focus on one of the issues.

Mr. PYATT. Okay.

Senator LEVIN. One of the issues in the uniformed Navy's mind was still whether or not that was going to be set aside at all, and if so, partially or fully. And you are saying that was still an open issue on January 13?

Mr. PYATT. On January 19th, yes.

Senator LEVIN. Now, did you indicate at that meeting on January 19th that if the 8(a) contractor did not have the production facilities now, and prior to the award, that he could not play in the ball game, as it would be impossible to meet scheduled delivery dates?

Mr. PYATT. If you are reading from the notes, I said something like that because, as I said, in my mind it was an open issue in that meeting, and we had to look into the facilities, look into the capability, and see what the problems were.

Senator LEVIN. Is it your recollection, your independent recollection, that at that meeting, you stated your opinion—and I will repeat it—that unless an 8(a) contractor had the production facilities prior to award that he "could not play in the ball game, as it would be impossible to meet scheduled delivery dates"?

Mr. PYATT. Yes.

Senator LEVIN. Okay. Now, Wedtech got the contract, although they did not have the production facilities; is that fair to say?

Mr. PYATT. But then I go back to this paper, or the trip report of the people who went up there, and——

Senator LEVIN. That was before January 19th.

Mr. PYATT. No, sir. It was the 6th of February.

Senator LEVIN. You are talking about another trip report.

Mr. PYATT. I am talking about the trip report where the people went to the facilities, looked it over, and made a judgment about the facilities.

Senator LEVIN. So that you changed your mind after that trip report?

Mr. PYATT. Well, this trip report, subsequent to the January 19 meeting, says that they have the facilities, but we have to focus on the issue of schedule.

Senator LEVIN. Let me read you the trip report, Paragraph A,

> Contractor provided transportation to his facilities. This facility was recently required and is just a shell of a building. Roof is not finished; no facilities inside, such as heat, light, or sanitary fixtures. Building is not designed for overhead crane services. Walk-through tour was requested as to how the contractor was to move pontoons to the waterfront area to assemble causeway sections. Contractor proceeded to lead party over railway track, along a road owned by a trucking company, then onto a private junk area, to look at a 35,000 square-foot of waterfront property owned by Wedtech. Contractor's plan is to negotiate right-of-way and install a concrete pad on which causeways will be assembled.[1]

Now, are you saying that that report told you they had the facilities?

Mr. PYATT. I would read paragraph 8(a) of the same trip report. "Contractor can technically and physically do the job."

Senator LEVIN. "However"——

Mr. PYATT. "However, he cannot meet the schedule." As I said before, we had to look into the schedule issues and what they meant. In this kind of business, we find that lots of times people are building facilities to get into business.

Senator LEVIN. My question is very simple. On January 19th, you stated that unless the contractor has the facilities now, prior to award, he could not play in the ball game. Are you saying that you changed your opinion after January 19th?

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[1] See p. 238.

Mr. PYATT. I am saying that everything presented in this memo says that the absoluteness of having to have the facilities should not be played so strongly, and they concluded they could do the job.

Senator LEVIN. But not in time.

Mr. PYATT. But the schedule was an issue, yes, sir.

Senator LEVIN. So all I am asking you is, based on that trip report, you changed your position from a position that he had to have the production facilities prior to award to a position that he could put together production facilities after the award.

Mr. PYATT. Because the production facilities—they were in the process. Production facilities could come together in time, and that seemed to be the conclusion of the group.

Senator LEVIN. And my question to you is, based on what you interpreted to be their conclusions, did you then change your own position?

Mr. PYATT. Yes. I got evidence that they were moving along; they were moving along adequately; they were not starting from scratch; and therefore, with some new facts, perhaps I should change my mind.

Senator LEVIN. I am not saying you should or should not. I am just asking you whether or not you changed position.

Mr. PYATT. Yes.

Senator COHEN. Will you yield for a question?

Senator LEVIN. Yes.

Senator COHEN. I was curious as Senator Levin read the items that were not completed. It would lead one logically to a conclusion that this contract cannot be performed. What is there in that particular assessment that, after having stated all of the negative things that were just read, made them come to the conclusion that Wedtech can do the job, but it is just going to take longer? It would seem to me after reading that, you would say this place is ready to be bulldozed, not to be built.

Mr. PYATT. May I use an example in Bath, Maine?

Senator COHEN. Please do.

Mr. PYATT. Of their new outfitting facility.

Senator COHEN. Bath Iron Works.

Mr. PYATT. Okay. Bath Iron Works, their new outfitting facility; that would also describe that facility. When they moved work in there and started doing things, they did not have bathrooms; they had porta-potties. And they are doing quite a fine job. So facilities can be used and not be complete—that is part of industrial operations.

Senator LEVIN. I know that Senator Cohen cannot ask you this question, but are you really suggesting as a comparison between the history and the stability and the work record and the performance record of the Bath Iron Works as to the record of Wedtech? Are you saying there is a comparison there?

Mr. PYATT. No, sir. I am saying that in one facility under construction, the Bath facility, an expansion, they have moved into it and started doing work before it was complete, and——

Senator LEVIN. I understand. But there was not a memo that shows that you said no way will we award a contract unless the facilities are completed in advance of the award on that Bath, Maine facility, was there?

Mr. PYATT. Well, some of the folks from Bath have been through this kind of thing before.

Senator LEVIN. Oh, wait a minute. It is a direct question.

Mr. PYATT. Okay.

Senator LEVIN. It is a direct question. Here, you have got a memo saying no way—these are the notes of this meeting of January the 19th. It says, you "opined that if the 8(a) contractor did not have the production facilities now, prior to award, he could not play in the ball game, as it would be impossible to meet scheduled delivery dates."

Mr. PYATT. Yes.

Senator LEVIN. That is what you said at the January 19th meeting. You are not suggesting you said something similar about the Bath, Maine expansion.

Mr. PYATT. I was only making a comparison of facilities under construction and in use.

Senator LEVIN. I know. But it is a comparison which does not shed any light on the decisionmaking process here, because here the decisionmaking process was on November 8th, you said "no" to the set-aside; on December 8th, a month later, you said okay, we will do a partial set-aside; on January 6th, a month later, you said, we will entertain a full set-aside; on January 19th, you say but the facilities have got to be totally in place prior to the award and, lo and behold, you change your mind a third time—they do not have to be in place prior to the award. Why? Because there was a trip that went out there. And these folks went out there and said this place is not in any kind of shape at all, but they can do the job given enough time—which is obvious. You can give someone ten years, and they can do it.

But they specifically point out in here that they cannot meet the delivery schedule. That is very specific in their trip report. The Navy had told you the schedule was important to them. They argued with you on January 4th. That was critical to them. They wanted you to meet the schedule.

So for you to come in and say, "Well, gee, they have porta-potties," or something, in Bath, Maine, it seems to me is pretty disingenuous, because the point here is you changed your mind three times in three months on this thing.

Mr. PYATT. What is wrong with changing your mind?

Senator LEVIN. Nothing. But there is no analogy to Bath, Maine unless you say you changed your mind there three times in three months.

Senator COHEN. If I could rescue Bath Iron Works for a moment—all the comparisons are said to be odious. But I think what is inappropriate by comparing it to Bath Iron Works, perhaps, is Bath Iron Works is not a Section 8(a) company.

Mr. PYATT. That is right.

Senator COHEN. And it might be more appropriate to draw a comparison between Wedtech in terms of where they were and starting up and some other 8(a) contract, but not to Bath Iron Works.

I guess my question is, as you go through the report and say, "Here is what has been started, and here is what is left to be done," and they come to the conclusion, that, they can do it, but time is going to be the factor here; it is going to slip.

Mr. PYATT. Yes.

Senator COHEN. Is that consistent with other types of 8(a) contracts? Is there something that would have raised—what Senator Levin is getting at is—is there something here that should have raised a flag in everyone's mind, saying this is a bad deal to get getting into; that political pressure being generated. Or, is this something that you contend with in other cases in which you have 8(a) contracts, defense contracts, and you have minority-owned firms starting up, and you have got obviously political pressure coming from Congressmen and Senators, saying, "We want the jobs in our district," and you have got lobbyists? I mean, is there something distinctive about this, where they say everything about this was bad from the beginning, but they were well-connected? That is what he is getting at.

Mr. PYATT. No. Start-ups in this kind of work are always difficult. I think that no place in the discussion, once we got into it, on schedule, did anyone offer the opportunity or the idea that going to an open competition, which would have been our choice, would have been any faster.

We tried to lay those kinds of ideas out for discussion, as I recall, and no one said that going to open competition will get them any faster.

Senator COHEN. Did you ever have a meeting in the White House with the head of the SBA and others concerning this contract?

Mr. PYATT. No.

Senator COHEN. That never took place?

Mr. PYATT. No.

Senator COHEN. So in other words, no pressure was brought from anyone in the White House or outside of the White House or connected to the White House to cause you to decide that this should go Section 8(a) with the complete contract going to Wedtech?

Mr. PYATT. That is correct. The only pressure that I perceived was the pressure that we have to make 8(a) goals in terms of dollar volume produced every year; we get graded on that; we get put on report if we do not make it. That pressure exists. It existed then, but it was not related to this particular company.

Senator COHEN. Do you have a quota?

Mr. PYATT. A quota; we have a quota. It is a high quota. So you have to scratch every year to make it.

Senator COHEN. And who sets the quota?

Mr. PYATT. That is a negotiation carried on between the Deputy Secretary of Defense and the head of the SBA, and it is numbers passed on down to the service to meet.

Senator LEVIN. Do you consider what you call a "quota" to be a "quota" or a "goal"?

Mr. PYATT. Oh, a quota. We get put on report if we do not make it, and I get a letter from the Deputy Secretary that says I am not doing my job.

Senator LEVIN. So you consider—in your eyes that is a quota.

Mr. PYATT. Yes, sir. You try to make it—and I view that by its existence, it means that we really have to struggle to do it.

Senator LEVIN. Now, in December you sent a letter to Mr. Sanders in which you agreed to set aside the nonmotorized portion of the contract.

Mr. PYATT. Yes, sir.

Senator LEVIN. Later on, you agreed to set aside the entire contract.

Mr. PYATT. Yes, sir.

Senator LEVIN. What changed?

Mr. PYATT. Well, that interval in between those two—after Mr. Sanders got the nonpowered part, that is when he wanted to talk about the whole program, and I described to you earlier his argument, and that is in that interval when it occurred.

Senator LEVIN. So the meeting that took place between you and Mr. Sanders in the middle of December was relative to whether it would be all or part——

Mr. PYATT. Yes, sir.

Senator LEVIN [continuing]. Not whether it would be any?

Mr. PYATT. Yes, that is correct. And on the first piece, again, we agreed to consider it. We had to see what firms they offered up, and whether or not there was any hope of making the program.

Senator LEVIN. In your meeting with Admiral Hughes on January 4th, was the issue all or none, or was the issue all, part, or none?

Mr. PYATT. I met so much with Admiral Hughes, I have a rough time—in fact, I cannot distinguish January the 4th from any other day. We talked a lot on the telephone, and we talked a lot in person. So I cannot honestly answer your question.

Senator LEVIN. Talking about so many meetings you cannot remember, Mr. Sanders testified that he does not recollect ever having a similar meeting to the one that he had with you when he lobbied for this set-aside. I think you testified it was common for Sanders to do that?

Mr. PYATT. Well, he had—over the period of several months—as I testified, I think we had two or three conversations a month about a program or another.

Senator LEVIN. About set-aside of 8(a) contracts?

Mr. PYATT. Small business in general; 8(a)——

Senator LEVIN. Any particular contract? Had he ever lobbied you for a particular set-aside, other than this one?

Mr. PYATT. There were some smaller ones that I do not recall, that he asked us to cooperate with; we tried.

Senator LEVIN. So you do not recall?

Mr. PYATT. I do not recall the contract, but I do recall discussions about an electronics firm of some sort.

Senator LEVIN. Your recollection is that he did lobby you for specific set-asides other than this pontoon set-aside?

Mr. PYATT. He was trying, and we were trying to cooperate in the small and minority business with Mr. Sanders.

Senator LEVIN. My question is do you remember him lobbying you for any other set-aside——

Mr. PYATT. I remember——

Senator LEVIN. Let me just finish, if you would.

Mr. PYATT. Okay, sorry.

Senator LEVIN. Do you remember him lobbying you to set aside any particular contract, even if you cannot remember the name of it? Do you remember him lobbying you for the set-aside of contracts other than the pontoon contract?

Mr. PYATT. Yes.

Senator LEVIN. All right.

Mr. PYATT. By phone, as I recall.

Senator LEVIN. We have taken a look at the files, and you have been very cooperative, by the way, with us in terms of our investigation, and we have not been able to find a single memo or any other document providing a rationale for the decision to set aside the entire contract. How come that rationale was never put on paper?

Mr. PYATT. There is a lot that we do that we do not write down. We had the meeting, we had the discussion and agreed to proceed looking into Wedtech, or whoever they sent over on this contract.

Senator LEVIN. I believe you indicated to our staff that you had a problem with the SBA because they had no paperwork which justified their selection of Wedtech over other candidates. Your words were, "No one justified the decision at SBA. There was no documentation around," you said. "Wedtech just rose above the others in the list of those possible contractors provided." Is that true?

Mr. PYATT. Yes, I think so.

Senator LEVIN. Was that frustrating to you?

Mr. PYATT. Well, as I think I mentioned when you were out of the room, I think the source selection process should be evaluation, documented, and available for the GAO to review should a protest be filed. I think that has proven a successful operation in other lines of business and should be copied here.

Senator LEVIN. Did you feel there should have been some documentation here to explain why it was that SBA was recommending Wedtech to you?

Mr. PYATT. When a source gets picked out of the air, whether it is Wedtech or anyplace else, or apparently out of the air, I think it should be evaluated and justified in competition.

Senator LEVIN. In writing.

Mr. PYATT. In competition and in writing.

Senator LEVIN. It is even more important, it would seem to me, that there be some documentation if there is no competition; wouldn't you agree?

Mr. PYATT. I think the theorists on that one say there is no competition; it is academic. That is the reason I prefer competition.

Senator LEVIN. Where there is no competition, doesn't the door open to a lot of political pressure?

Mr. PYATT. Well, I have described to you before the amount of letters we get on 8(a)'s, and yes, it does.

Senator LEVIN. And because the door is open to political pressure where there is no competition, isn't that more reason to try to have documentation until we change the system and have competition? Wouldn't you even agree with that much?

Mr. PYATT. Oh, yes, yes, yes, I would.

Senator COHEN. I know it is difficult to agree with Senator Levin, but——

Mr. PYATT. I did not say anything, sir.

Senator COHEN. I am expecting Bath Iron Works to send him a letter any time of commendation for bailing them out of your comparison.

Mr. PYATT. I was not comparing Bath Iron Works.

Senator LEVIN. Well, it sounded like that. We thought we saved it—we thought that Bath was in hot water there, but I guess not.

Let me ask you, isn't it normal practice to review the candidate for a set-aside prior to your agreeing to set aside the contract?

Mr. PYATT. No. I am trying to get an accurate description of the way I perceive the system works. A contract may be set aside sort of conditionally, pending the review of a contractor. The SBA may nominate somebody. There is a lot of exchange that goes on, and it gets kinds of fuzzy, exactly what happens.

Senator LEVIN. Well, is it not at least the usual situation that you are requested to set aside a particular contract, and a request comes in as a request of procurement on behalf of a particular company, please set it aside—isn't that the way these requests frequently come in?

Mr. PYATT. Sometimes. They sometimes come in and say please set this kind of work aside, and we are going to find somebody to nominate you. They come in both ways.

Senator LEVIN. Which is the greater number—with them identifying the firm that they want to set aside the contract for, or not—50-50?

Mr. PYATT. My opinion is—and it is only an opinion—that 50-50 is as good an estimate as any.

Senator LEVIN. In this case, given the fact that you had a time-sensitive contract for something that was very important to the Navy, and it was the largest 8(a) set-aside that had ever existed, and the fact that you had opposed the set-aside altogether, and then you suggested it only be a partial set-aside for nonmotorized—given all of those facts, you were obviously concerned about the size of this contract. That was the reason why you opposed it. You were obviously concerned about the complexity of it, at least the motorized part. That is why you suggested first that it just be the nonmotorized part.

So you had problems with this. Wouldn't it have been wise for you to know who it was that they were proposing for this contract prior to your agreeing? Now, you have the right to do that, right?

Mr. PYATT. I think so.

Senator LEVIN. Given all those circumstances, why didn't you do that?

Mr. PYATT. I go back to the letter and the discussion that we had. We agreed to entertain—I did not say we agreed to do it—but we agreed to entertain—send us over somebody to look at. So it was in that light rather than we have decided to do it.

Senator LEVIN. Well, when did you decide to do it?

Mr. PYATT. It evolved through here. We did not really decide to do it until we had the contract negotiated and the pricing all done. That was when the final decision was; that was in April sometime, I think.

Senator Levin. So you really did not decide, then, right after January 4th, as the Admiral said, to set this aside subject to being talked out of it. You really——

Mr. Pyatt. It evolved. It evolved over a period of time, and I think that over that period of time—I do not want to put words in Tom Hughes' mouth—but I think he got more comfortable with the schedule and the schedule risk. We talked about it as it went along, and—I hope I did not put any words in his mouth.

Senator Levin. I am afraid you did.

Mr. Pyatt. Okay.

Senator Levin. When would you say, then, that you finally decided on this contract, to set aside this contract?

Mr. Pyatt. I think the final decision was made when they came to agreement on the price. For a long time, they wanted far more money than we were willing to spend.

Senator Levin. Until then, you are saying you had not decided to set aside this contract?

Mr. Pyatt. I do not know—"deciding" is final. But it was still an open issue in my mind, that we could have reversed it if something had some up that had said we really got to do it. But I also say that we would have had a lot of Congressmen down our backs for doing it, but that is all right.

Senator Levin. You are used to that, aren't you? You can handle that pretty well. Your reputation is that you are pretty strong-minded and strong-willed. And frankly, one of the things that really troubles me here is that this one got by you, because your reputation is that you are willing to stand up and say no. And here, you have got a situation where you started off saying no; you were worried about the size of this contract, and you said no, you do not want a contract this big. Then you said, well, only if the facilities are in place; you backed away from that and said, well, if they are starting to work on the facility. And then you said, well, only a part. And then you finally decided, well, we will let the whole thing go.

I am just saying that it does not fit you, because you are known as being someone who does not mind making enemies of contractors, Members of Congress, or anyone else. But on this one, it seems to me one mind change after another, and it troubles me a great deal. And you are saying, well, the White House did not bring any pressure on you.

Mr. Pyatt. The only pressure that was brought on me was the question of meeting our 8(a) quota.

Senator Levin. Sanders?

Mr. Pyatt. No. Sanders raised the issue—but you asked about pressure. I think the thing that was in my mind was the 8(a) goals, the quotas; you have got to produce the 8(a) business. And as this went along, those are the risks that one has to accept. I thought, as it went along, pieces were falling in place. That was my perception.

Also, I hope I have the reputation that I am willing to listen to facts and logic and change my mind.

Senator Levin. Well, that is clearly established after this; at least the changing the mind part is clearly established.

Mr. Pyatt. I think it has been clearly established up here on other issues, too.

Senator LEVIN. Navy officials, Mr. Pyatt, have told the Subcommittee that the one-day site survey was used as a substitute for the full pre-award survey. There is a Navy memorandum for the January 1984 meeting that you attended that states, "Even a 14-day site survey would pose a significant risk," and that "site surveys are important to 8(a) procurements."

The same memorandum states that NAVFAC knows of no precedent for negotiation prior to audit with an 8(a) contractor. The administrative contracting officer put it even more strongly in an interview with the Subcommittee staff, stating, "It was unheard of not to perform a pre-award survey of a contractor that had never built the product before."

My question to you is were you aware of the fact that this contract was awarded without a pre-award survey and prior to the completion of an audit of Wedtech's proposal?

Mr. PYATT. No. I was told—I was not involved in any of the negotiations on price. The pre-award, those things, all should have been done as with any other contract, and I was not involved with that. NAVFAC was doing it, and certainly no one kept them from doing it.

Senator LEVIN. Did you know at the time that there was no pre-award survey?

Mr. PYATT. No, sir.

Senator LEVIN. And did you know——

Mr. PYATT. What I did know in general, not in specific, was that our people were up there, at their facilities; they were talking about the price; they were talking about the contract; there were negotiations going on over a period of months that I had no first-hand knowledge of, but they were going on as one would expect in a normal contract negotiation, and that issues would be raised and resolved or rated impossible to resolve.

Senator LEVIN. Well, then, is the answer to my question "No"?

Mr. PYATT. No, the answer is not "No." I would say a lot of information was exchanged. And if your question was inclined to suggest that we did not know what we were getting into, I do not think that is right.

Senator LEVIN. No. My question was very specific. Were you aware of the fact that there was no pre-award survey prior to the award of this contract?

Mr. PYATT. No.

Senator LEVIN. All right. Do you know now that there was no pre-award survey?

Mr. PYATT. You told me, yes, sir.

Senator LEVIN. This is the first you have heard of it?

Mr. PYATT. Yes, sir.

Senator LEVIN. All right. And what about the completion of an audit of the Wedtech proposal?

Mr. PYATT. I thought that an audit would have gone on as part of the contract negotiations between NAVFAC. They certainly have the authority to order it on their own and do not need anybody else to——

Senator LEVIN. But is it fair to say——

Mr. PYATT. But I did not know it.

Senator LEVIN. Is it fair to say you assumed that there was an audit?

Mr. PYATT. Yes, yes.

Senator LEVIN. And did you ever find out that one was not completed?

Mr. PYATT. Not until now.

Senator LEVIN. Now, prior to January of 1984, did you discuss the pontoon contract with either Lyn Nofziger or Mark Bragg?

Mr. PYATT. No.

Senator LEVIN. And did either Mr. Nofziger or Mr. Bragg contact you to seek a meeting on that subject prior to that time?

Mr. PYATT. No, I do not think so—no.

Senator LEVIN. Did you meet or talk to Mr. Nofziger or Mr. Bragg prior to the award of the contract?

Mr. PYATT. No.

Senator LEVIN. Now, there is a February 16, 1984 memorandum which reports a phone call to you from a "Mr. Nosiger"—presumably "Nofziger," since he was identified as "the President's political advisor"—"relative to the delivery date of the technical proposal from Wedtech." [1]

Did you call Mr. Nofziger——

Mr. PYATT. I did not call him, I did not talk to him. I think that particular phone call has been the subject of many questions. The end result was that we denied their request.

Senator LEVIN. Do you remember talking to Mr. Nofziger on the——

Mr. PYATT. No. I did not. Someone in the office talked——

Senator LEVIN. In other words, you have never talked to Mr. Nofziger?

Mr. PYATT. No, I did not say I have never talked with Mr. Nofziger. I said that that particular phone call, I did not take.

Senator LEVIN. Do you know whether anyone responded to the President's political advisor's phone call of February 16th? That is not a call that comes in every day, I would not think.

Mr. PYATT. No. They made a request for us to delay something, and we did not delay it.

Senator LEVIN. My only question is do you know whether or not anybody responded to the phone call?

Mr. PYATT. Somebody did, yes.

Senator LEVIN. All right. But you did not.

Mr. PYATT. I did not.

Senator LEVIN. And you imply that you have talked to Mr. Nofziger.

Mr. PYATT. Yes, sir.

Senator LEVIN. Can you tell us when your first conversation was with Mr. Nofziger?

Mr. PYATT. I do not know. I think it was sometime subsequent to the award of the contract, but I am not sure when.

Senator LEVIN. When there were problems with this contract, is it true that you initiated a phone call to Nofziger and Bragg to try to get their help to get their client moving?

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[1] See p. 242.

Mr. PYATT. Yes, sir. I initiated a call to Bragg.

Senator LEVIN. And how did you know that they represented Wedtech?

Mr. PYATT. As I told you before, I do not know how I learned it, but I did know it; otherwise I could not have made the call. But I just do not know. But it was in the stage when the contract was trying to get started, and we had some of the problems I have described earlier about the contractor getting their act together and us getting our act together on specifications and the things the Navy had to furnish.

Senator LEVIN. At the time of the set-aside and award of the pontoon contract, or at least, when it was taken under consideration, you were waiting for the President to forward your nomination to become Assistant Secretary; is that correct?

Mr. PYATT. From the period of——

Senator LEVIN. During that period in the fall and winter of 1983.

Mr. PYATT. Yes, sir.

Senator LEVIN. And there was quite a long delay in that nomination being forward by the White House to the Senate; is that correct?

Mr. PYATT. I think, 8 or 9 months—I guess not too much beyond the average.

Senator LEVIN. Did the question of your nomination ever come up in a conversation with you and Mr. Nofziger prior to the nomination coming down to the Senate?

Mr. PYATT. No.

Senator LEVIN. Did it come up after the nomination came down?

Mr. PYATT. I do not think so. I will answer "No."

Senator LEVIN. Well, didn't he congratulate you on your nomination?

Mr. PYATT. Well, it was public.

Senator LEVIN. Yes. Didn't you have a conversation in which he congratulated you on your nomination?

Mr. PYATT. I do not know. Several people did, and some gave me condolences.

Senator LEVIN. Well, didn't you tell our staff not too long ago that right after your nomination you were talking to Mr. Nofziger and he said that one of the biggest mistakes we made was not recognizing——

Mr. PYATT. That was——

Senator LEVIN [continuing]. Let me finish, if I could——

Mr. PYATT. That was in the fall, afterwards. That was probably October.

Senator LEVIN. That is what I asked you—did Mr. Nofziger congratulate you about your nomination.

Mr. PYATT. Oh, okay. You——

Senator LEVIN. Well, I am not——

Mr. PYATT. I am trying to respond fully, and that did happen in the fall.

Senator LEVIN. All right. And what was the occasion for that conversation?

Mr. PYATT. I forget exactly the context. He was in the office for something. I guess it was in relation to the civilian manning of merchant ships, one of the unions he represented.

Senator LEVIN. These are the notes of my staff, and you can correct them. They said that you indicated the following:

> I was talking to Nofziger after the nomination came down. He said that one of the big mistakes we made was not recognizing that people in the civil service can help us. I think it was close to when it was a "done deal" when I was up for confirmation. Nofziger may have done something on my behalf, but if he did, I am not aware of it, and there is no reason why he should have done anything on my behalf.

Is that accurate?

Mr. PYATT. Almost.

Senator LEVIN. What is inaccurate?

Mr. PYATT. I think the timing issue, because what I recall saying in that meeting was later; I do not recall anything about the timing. It was certainly afterwards, after I had been confirmed.

Senator LEVIN. That conversation was after you were confirmed?

Mr. PYATT. Yes, sir.

Senator LEVIN. And have you ever heard rumors that one of the reasons that your nomination was held up at the White House had anything to do with your opposition to Wedtech; have you ever heard a rumor to that effect?

Mr. PYATT. No, no.

Senator LEVIN. After your conversation with Mr. Nofziger, I understand that you would have lunch with him on a fairly regular basis?

Mr. PYATT. Not a fairly regular basis. Infrequently; once or twice.

Senator LEVIN. Per——

Mr. PYATT. Year.

Senator LEVIN. And you told the Subcommittee staff, "I believe that Mr. Bragg set up the lunches and would also attend."

Mr. PYATT. I only agreed to—Mr. Nofziger and Mr. Bragg are both fascinating people, and I enjoy talking, but I only agreed to have lunch when it was clear they were not in the defense business anymore.

Senator LEVIN. But weren't they representing Wedtech?

Mr. PYATT. They told me they were not; at the time that we met, they were not representing anyone in the defense business. So this would be sometime much later.

Senator LEVIN. Well, was it shortly after that conversation that you started to have your once or twice a year lunches with them?

Mr. PYATT. No, sir, no, sir. It was much later than that; several months later than that.

Senator LEVIN. Several months after that.

Mr. PYATT. Several months.

Senator LEVIN. So what year would that have been, then?

Mr. PYATT. Eighty-five, late 1985.

Senator LEVIN. Did they tell you that they were no longer representing Wedtech in 1985?

Mr. PYATT. Well, whenever it was—I asked, "Are you representing any defense contractors?" They said, "No." I said, "Okay, I think it would be fun to talk." But I have a general rule, as I told your staff, that I will not go to lunch with defense contractors—or dinner, or anything else.

Senator LEVIN. I thought your rule was that you would not talk business at such a lunch, but that you——

Mr. Pyatt. I will not go to lunch. I will not go to lunch with defense contractors, and I will not talk business with anybody I go to lunch with, except in the office.

Senator Levin. All right. And just so we can have a real clear answer, then, you specifically asked Bragg and Nofziger whether or not they any longer represented anybody in the defense business prior to your having lunch with them, and they answered "No"?

Mr. Pyatt. Mr. Bragg did.

Senator Levin. Mr. Bragg answered "No"?

Mr. Pyatt. Yes.

Senator Levin. And Mr. Nofziger?

Mr. Pyatt. I did not ask him that.

Senator Levin. And those lunches began in 1985?

Mr. Pyatt. Or later, even. I am not really sure. They were much later than all of this, and I will have to go back and try to figure out exactly when. There were just a couple of times it happened.

Senator Levin. Well, when was the last time you talked to Mr. Bragg about Wedtech?

Mr. Pyatt. Wedtech—I think it was approximately the time that I raised the issues with Mr. Bragg about the conduct of the program and the things that Wedtech had to do that they were not doing. That would have been early 1984.

Senator Levin. The last time you had any conversation with Bragg about Wedtech was early 1984?

Mr. Pyatt. I believe so.

Senator Levin. Mr. Arny has testified—he was your Deputy then——

Mr. Pyatt. Yes, sir.

Senator Levin [continuing]. That he had conversations with Mr. Bragg throughout this period 1984-1985.

Mr. Pyatt. Well, when I——

Senator Levin. Were you aware of the fact that Mr. Arny was having conversations with Mr. Bragg about Wedtech?

Mr. Pyatt. Well, because Bragg was representing Wedtech and some role not unlike many others around town, and——

Senator Levin. I did not quite follow that.

Mr. Pyatt. Well, he was a contact point with Wedtech.

Senator Levin. Until when?

Mr. Pyatt. I do not know.

Senator Levin. I thought you said he told you that he no longer represented them.

Mr. Pyatt. Well, no longer whenever I agreed to have a lunch with him, and I think that was late 1985 or 1986. It was much after all of this.

Senator Levin. The Subcommittee has obtained a number of memoranda from Mr. Wallach, Mr. Pyatt. He was a Wedtech consultant at the time the pontoon contract was awarded. One memorandum, dated November 9th, 1983, this is what he said—by the way, have you ever met Mr. Wallach?

Mr. Pyatt. No, sir.

Senator Levin. In his November 9th, 1983 memo he said that, "The Assistant Secretary of the Navy, by the name of Pyatt, has indicated that Wedtech is a prime recipient of the pontoon contract.' "[11] That is November 5, 1985. Where would he get that from?

Mr. Pyatt. He invented it.

Senator Levin. And in a second memorandum, dated December 7, 1985, Mr. Wallach states that:

> Secretary Pyatt's office, from the Navy, with Richard Ramirez writing the letter, will issue a letter which will set out qualifications that really apply only to Wedtech. Delivery will be to the East Coast first and will include elements of the propulsion as well as the nonpropulsion portions of the contract.

This is December 7th, 1985.

Then he went on:

> In other words, it should be terrific.[12]

Where did he get that from?

Mr. Pyatt. I do not have the least idea.

Senator Levin. It turned out to be true, though, didn't it?

Mr. Pyatt. Yes, it did.

Senator Levin. And Mr. Wallach has specifically told us that this information came from Mark Bragg, who Wallach understood to be in contact with you at that time. Are you saying that that was not true?

Mr. Pyatt. That is not true.

Senator Levin. And Mr. Wallach also told the Subcommittee that he met with you on at least one occasion, and that was at a ball commemorating the President's second inaugural, and that you were present at that ball as a guest of Mr. Nofziger and Mr. Bragg. Is that true?

Mr. Pyatt. Yes.

Senator Levin. And would that have been in January of 1985?

Mr. Pyatt. Yes.

Senator Levin. In California?

Mr. Pyatt. No, here in Washington.

Senator Levin. In Washington. And why would you have been invited by them to the ball? Were they friends of yours?

Mr. Pyatt. I do not know why they invited me. I went to the inaugural ball.

Senator Levin. Before you went, did you ask them whether they were representing defense contractors?

Mr. Pyatt. No, I did not.

Senator Levin. And the former Executive Vice President of Wedtech, Mr. Moreno, has told the Subcommittee that Mr. Bragg reported to him on numerous occasions in the fall of 1985 that he, Bragg, had spoken to you about Wedtech and the set-aside of the pontoon contract. Was he wrong, too?

Mr. Pyatt. Yes. I did not discuss the set-aside or the pontoon contract with anybody prior to discussing it with Mr. Sanders.

Senator Levin. All right. We are giving you a document to give you the opportunity to look at it; it is a bit complicated, but let me try to lay this out for you.

One of the documents that you sent us from your office files is a memorandum on unmarked paper that does not identify the source, which appears to bear the handwritten date November 1 in the upper right-hand corner. This memorandum lays out Wedtech's plan for performing the pontoon contract, with the subcontracts to other 8(a) firms in areas such as Puerto Rico, Texas, and Pennsylvania.[1]

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[11] See p. 313.
[12] See p. 330.

Now, the Subcommittee has obtained a second copy of the exact same memorandum from Wedtech's file. This copy of the memo has a handwritten note in the upper right-hand corner, which states the following: "Mario, This is the piece that Lyn and Mark"—presumably, Nofziger and Bragg—"that Lyn and Mark will be using with SBA and Navy." It is signed, "Steve"—and we assume, because of the cover page, that that is Steve Denlinger, of the Latin American Manufacturers Association.[2]

Do you know Mr. Denlinger, by the way?

Mr. PYATT. No.

Senator LEVIN. All right. My question is this. Do you know how that memorandum got in your file?

Mr. PYATT. No, I do not. I have never seen it before.

Senator LEVIN. That came from the files that you sent to us.

Mr. PYATT. I understand, but I still have not seen it before.

Senator LEVIN. I understand.

Mr. PYATT. I did not try and review anything we sent you. I just asked the folks to send you our files.

Senator LEVIN. All right.

We are just going to wait a moment and see if Senator Cohen wants to ask questions.

[Pause.]

Senator COHEN. I have come in in the middle of your questioning, Senator Levin, or at the end of it, I guess. I am just told by staff that you were shown a memo that appears, at least, in our files; is it in your files as well, Mr. Pyatt?

Mr. PYATT. I was told that it came out of the stack of paper that we sent over some time ago, yes.

Senator COHEN. Were these notes taken from Mr. Wallach's file?

Senator LEVIN. The same document came from Mr. Pyatt's files, and he said he never saw it before, and from Wedtech's files. And the copy from Wedtech's files has a note, "November," obviously, 1983, before the contract was awarded, saying that this is the document which is going to be used to try to get the Navy and the SBA to award that contract. And the question is how did that same document appear in Mr. Pyatt's files, and he says he does not know, that he never saw it before.

Mr. PYATT. I have never seen it before. The only thing I might speculate is that someone gave it to the people in our small business office, and there it got into the office files. But that is only speculation.

Senator COHEN. Well, I take it your testimony is that you had no dealings with Mr. Wallach?

Mr. PYATT. That is correct.

Senator COHEN. And Mr. Bragg?

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[1] See p. 374.

[2] See p. 376.

Mr. PYATT. I have testified that I have had no business dealings with Mr. Bragg regarding this. The question just came up, and I am sorry it is an oversight on my part, that I did attend the President's inaugural ball as a guest of Mr. Bragg on his election. But there were no business dealings. And I have also testified that——

Senator COHEN. Would that have been three years prior, two and one-half years prior?

Mr. PYATT. Eighty-five.

Senator COHEN. Eighty-five? Oh, I am sorry.

Is it your testimony that there was no decision that was made as early as November of 1983 on your part——

Mr. PYATT. Absolutely, absolutely.

Senator COHEN [continuing]. That would have indicated that Wedtech is a prime recipient at that point?

Mr. PYATT. Absolutely. Senator Levin read me a note, saying that—made the comment that that was the way it happened, I think is what you said. But whoever wrote that maybe projected that was what was going to happen, but certainly, I at that time did not think it should.

Senator COHEN. So this could be Mr. Wallach, writing memos, taking credit for something that had not happened as far as your decision was concerned?

Mr. PYATT. As far as my thought process had evolved, it had not. I still preferred at that time, I still preferred a small business set-aside.

Senator COHEN. As a matter of fact, in December of 1983, you were still opposed to the set-aside?

Mr. PYATT. Yes, sir. At the date that he gave me on that memo, that is true. I wish I had stayed that way, after all of this.

Senator COHEN. I was going to say earlier, this is a complicated case, but I want to say a few words about you and let Senator Levin know for the record that I have had dealings with you since I have been in the Senate—I have not always been happy with the result, I must say. Bath Iron Works cannot always claim that they were well-treated, but they can only say they were fairly treated by you. I have been on the losing end of some bad news at your hands at times, and also some good news, but I always felt that the way in which you dealt with me was pretty straight-forward and pretty tough-minded. And I know that BIW feels the same way in terms of not getting as much as they thought they were entitled to and losing out on competitive bids, and being told that they did not shape up on a given contract, and therefore it went elsewhere.

So I have had some pretty straight-forward dealings with you, and that is why it is important for me to say this, that I think that you are an individual of integrity, and you are also result-oriented. I know that when the contracts and the prices do not measure up, you have gone and sat down with Bath Iron Works, with their competitors, and sat in a room and tried to work out the numbers to make sure that it was done right.

I must tell you, in this particular Wedtech case, I think it was bad from the very beginning. I think that it is easy now, perhaps, to go back after the fact is over and look at it and say here is a classic case of where we had something that was a socially desirable goal, perhaps, that we support—Section 8(a)—no one has ever offered an amendment to repeal it; it is still there; you have quotas. So it does present opportunities and problems in the administration of it, particularly in the Defense Department, where DOD is not particularly concerned about social results; they are concerned about getting product, as they indicated before.

But I must say that on this particular case, even though there was a socially desirable goal of putting jobs up in the New York area, and pursuant to a campaign pledge, there were some things that were done along the way that should have been raising smoke signals to various individuals, saying that as much as you want to put jobs up there, as much as you want to put it Section 8(a), there are some things that are wrong along the way. And the appearance, if not the reality, of the situation is that it was a purely political judgment that was made to give it to this particular firm because of connections—because of the lobbying that was done outside, giving subtle or even not so subtle directions to say let us get a job located, or a factory, or an operation located in this region, and let us give it to this firm—they are the only ones qualified—even though there are a lot of danger signals being emitted.

Part of the difficulty is that under Section 8(a), there are probably always danger signals; when you are dealing with large contracts, complicated products, there are probably always danger signals. And we want you and others to take certain risks. I mean, that is part of the deal. We are taking a certain risk to see if we cannot upgrade an area or give opportunity to disadvantaged individuals who have been discriminated against over the years, and so you are going to take certain risks involved. And we know that, and that is part of the conflict that we have, because DoD and the military do not want to take any risks—they just want to get the job done—but they are forced to do so by virtue of the social goals that we legislate.

But in this case, I think there were so many things that were going wrong, so many things that appeared to be irregular, and suddenly, it gets started, money gets poured in. Maybe it started off on a noble effort, but what happened is a lot of people, a lot of lobbyists, a lot of attorneys, a lot of people connected to various individuals in the Administration, suddenly seized hold, attached themselves to this particular fish, and disemboweled it, basically. So you had a lot of people disappointed; people lost their jobs. We have the military certainly disappointed. The program has been set back, in terms of its objectives, in my judgment. And hopefully, we will learn a lot out of it, in addition to what is going on with whatever prosecutions are taking place.

But I just want to say for the record that I have had a good relationship with you over the years. You have been pretty straight with me, and I have never asked you for anything and you have never given me anything except on the merits. And I thought that should be part of the record as well.

Mr. PYATT. Senator, I appreciate your kind words about me. I also wish that my summary of the situation that has gone on had been as articulate as yours, because I think you have accurately characterized the perceptions of what went on and characterized why the 8(a) program needs some structural changes.

Senator LEVIN. As I indicated, Senator Cohen, when you were not here for a moment, one of the reasons that I am so disappointed here is that Mr. Pyatt indeed does have a reputation of being able to say "No" to some pretty strong requests that are made of him; he is willing to make enemies of contractors, Members of Congress, whatever is necessary in his judgment, from my experience, when he felt he had to say "No." And that is what just simply does not fit here, because there were so many warnings at the beginning, so many changes of mind that Mr. Pyatt went through, that that bothers me. I have got to look you in the eye, as I did before, and tell you that I am troubled by that because it frankly is not characteristic of you, I believe, not to stick to your position, which is "No" to the largest contract ever to come down the pike, to a firm with no experience in this, to a firm which was not prepared physically to proceed down this road, where you said the firm had to be prepared physically in order to do it, where you said it was going to be a partial set-aside at most and save the complex part for a firm which had experience—and then you backed away from that.

There is so much here that troubles me, and I just obviously want to say that, too. I am the first one to acknowledge that Mr. Pyatt's reputation is someone who is able to stand up to pressure and say "No" when "No" is the appropriate answer.

Now, I have got just one other point I want to make, and then I am going to give a short statement to wrap up——

Mr. PYATT. May I—I am sorry.

Senator LEVIN. Sure. Go ahead.

Mr. PYATT. I have done some thinking here, while your discussion has gone on, and I try to reconstruct what went on in my mind at those various intervals you have described. And I think I really come back to the pressure I felt to produce our 8(a) quotas and, not seeing many other opportunities around, and recognizing the 8(a) program, as Senator Cohen says, brings along with it a set of risks—perhaps in retrospect, underjudging those risks—but trying to accommodate the information that came in from our folks and talk about the problems.

So I go back to Senator Cohen's summary; I cannot improve on it.

Senator LEVIN. One comment on your testimony, that the performance was satisfactory despite start-up problems—if that is what you testified——

Mr. PYATT. Yes, sir.

Senator LEVIN. Are you familiar with a memo to you from the Chief of Naval Operations, dated May 8, 1985?

Mr. PYATT. I have not seen this memo, but I do not remember it——

Senator LEVIN. We will have staff give you a copy—I am going to give a short statement here to wrap up where we are in these hearings, while they are looking for a copy of this, and then I can come back and ask you that. This is not something I am asking you to comment on, although I will come back to that memo and ask you for comment in a minute—well, here it is.

This is a memo dated May 8, 1985, from the CNO to you, which says at the bottom of paragraph one, "We are past the point of simple schedule slippage and are now dealing with a very real degradation of our sealift off-load capability." And then near the bottom it says, "Wedtech's problems include a multitude of items, such as: (1) inadequate production and assembly facilities; (2) improper tooling procedures; (3) absence of necessary production and assembly work procedures; (4) inadequate quality control measures; (5) inexperience in building small craft and ships. These are all contributing factors to delivery schedule slippage and also to the dimensional and tolerance problem Wedtech is currently addressing. I am not confident, more than a year after contract award, that they have resolved their facilities, quality or management problems to the extent necessary to preclude further delivery delays. I do not see satisfactory progress," he says in Paragraph 4. It is signed, "Admiral Hughes." [1]

Now, were you familiar with this document?

Mr. PYATT. No. This was the time that Mr. Arny was working on this project, and I was not.

Senator LEVIN. All right. So even though it was addressed to you, this would have gone to Arny?

Mr. PYATT. Yes, sir.

Senator LEVIN. All right. Let me try to wrap up at least my view as to where we are, and you are free to leave, if you wish, at this point, Mr. Pyatt. We will have additional questions for you, perhaps, for the record. I want to thank you for coming in and testifying.

Mr. PYATT. Thank you, sir.

Senator LEVIN. This is how I see where we are at the end of this fourth day of hearings.

Wedtech was a longstanding 8(a) company that became a favorite of the Administration. Prior to its being plucked out of the pack for special attention, it was producing a fairly decent product on a number of small contracts.

Then the Army engine contract came along, and as a result of White House involvement based in part on the President's good intentions to help the South Bronx, and in part based on the selfish interests of several persons both inside and close to the Administration, Wedtech got a sole-source, $31 million contract.

Wedtech fell behind in its production schedule on the Army engine contract. It needed cash. In the summer of 1983, the Wedtech officers and consultants decided to take Wedtech public, knowing that it might lose its 8(a) status, deciding that the money from the stock sale was more important than the benefits of staying in the 8(a) program.

But then it heard about the possibility of the Navy pontoon contract going 8(a). Several 8(a) companies had notified the Small Business Administration of their interest in the contract and of seeing all or part of it set aside for them. Wedtech's eyes lit up—but in order to be selected, they needed to stay in the 8(a) program. As set forth in a Wallach memorandum of November 9, 1983, the need to continue in the 8(a) status is predicated "primarily, if not exclusively, on the potential issue of a $400 million contract by the

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[1] See p. 297.

U.S. Navy under the 8(a) program." Wedtech, Wallach wrote on November 9, 1983, "is a prime recipient on a merit basis for the award of that contract."

And on December 7, 1983, Wallach wrote in his memo, "The problem is if we do not qualify under an 8(a) status, we are not going to get this causeway contract. If we do qualify for the extension, it is going to be subject to challenge."

At that point, Wedtech's people prepared a sham stock transaction, which the SBA accepted, as returning ownership and control to Mr. Mariotta, the president. The transaction was transparent, but the SBA accepted it. Defying all the evidence to the contrary, it granted Wedtech a three-year extension on its program term. That extension, issued by Robert Saldivar, just happened to occur on the very same day, January 25, 1984, that SBA named Wedtech as the contractor on the pontoon contract.

How had Wedtech managed to pull out in front of a field of 8(a) contenders for the pontoon contract that others had already taken the lead on? We do not know all the facts. But we do know that those other companies quickly disappeared.

Univox, the leading contender in Mr. Wilfong's mind, was told to go quietly away and await a possible subcontract. Lee Engineering was misled about its chances right up until January 1984. It still does not know what happened. Medley, a possible joint contractor with Wedtech, disappeared after an allegation that it was subject to an Inspector General's inquiry.

In the December 7, 1983 memo of Mr. Wallach, he wrote the following:

> I am advised of the following information. Secretary Pyatt's office from the Navy, with Richard Ramirez writing the letter, will issue a letter which will set out the qualifications that really apply only to Wedtech. Delivery will be to the East Coast first and will include elements of the propulsion as well as the nonpropulsion portions of the contract. In other words, it should be terrific.
>
> The answer, then, is to get a letter back to the SBA, specifying Wedtech, and apparently, Sanders has already decided to do that. If it goes as scheduled, we should have the contract by the end of the year.[1]

Somehow or other—and we have tried to ascertain as much as we can of the "how"—Wedtech had muscled its way to the top. Once it got to the pontoon contract, it became essential for it to obtain the 1985 and 1986 options. The options meant cash for the company.

As Wallach wrote November 6, 1984: "We all understand that securing the options is the essential economic underpinning for the company and its manufacturing capacity for the next 3 years, and hopefully beyond." [2]

Wedtech did not even want to wait for price negotiations. Somehow or other, an attempt was made to avoid or delay price negotiations. But here, at least, Wedtech was frustrated in its effort. We learned this morning and yesterday that the uniformed Navy cried foul, and the letter contract which permits negotiations on price to come after the award of the contract, that letter contract was not awarded. Where that letter contract came from, Mr. Arny does not know—but there it was, after all of the problems that they had with Wedtech on scheduling and on quality and on all of the items we heard enumerated over these hearings, there it was, as Captain de Vicq called it yesterday, there it was, "a license to steal."

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[1] See p. 329.

[2] See p. 347.

Once Wedtech was in the pontoon contract, they were in the driver's seat. The Navy was desperate for pontoons. Going dual source would take a lot more time. And as we heard this morning, Wedtech's promises were accepted over Wedtech's performance.

Finally, the whole facade crumbled, and Wedtech went bankrupt. The Navy was left with unfinished pontoons, unsupplied ships, and the taxpayers out a chunk of change.

What permitted this to happen? A well-orchestrated, well-funded network of well-placed, well-paid consultants and lobbyists cashing in on the President's well-stated and honestly-held intentions. Others cashed in on those. The President stated, as he had a right to do—indeed, as we would encourage him to do—that he wanted to bring employment to the South Bronx. It was the others who cashed in on that honest statement that is so compelling in this situation.

Because of the lack of competition, the 8(a) program is particularly vulnerable to this kind of conduct. We are going to have to address that as well as the ethics laws, as to what is permissible for former officials and for lobbyists.

We still have not addressed the issues involved in the Army contract, and we plan to do that later this year at an appropriate time, relative to the Nofziger and the Bragg trials. We have been in close consultation with the independent counsel as to the timing of those hearings on the Army contract, and we also await a final decision of the White House relative to certain key documents that we have requested from them.

That is where it stands now. We do not have a specific date for the hearings on the Army contract. We will continue to consult closely with members of this Subcommittee on that issue, with the independent counsel on that issue. Again, we will await the final decision of the White House relative to the documents that we have requested, and we expect that final decision any time.

Senator Cohen?

Senator COHEN. Mr. Chairman, I have a couple of things to say. First of all, I want to address myself to challenges about your motivation.

I have read and heard allegations made that somehow, you were simply out to embarrass the Administration or some individuals within the Administration and that that was your motivation. I want to say for the record that nothing could be further from the truth as far as I am concerned.

I have had the great privilege of working with you since we came to the Senate together; and whether in the majority or the minority, I think we have always tried to pursue similar interests and lines of inquiry. And I am satisfied that this particular case is certainly not one in which you are seeking any kind of political vendetta or retribution against any individuals or against the Administration.

I think what we have here is a case where some might argue about what is so different about it. After all, lobbyists have been going around Washington since Washington was created as a city;

we have had lawyers as long as lobbyists; we have had people move from Congress to the Executive Branch out into the private sector, and the wheel goes around and around. I think it was Bobby Baker who wrote a book called "Friends in High Places." And so they ask what is different here. Well, times are different, and I think the membership is different, and I hope our attitudes are different.

This particular case incomplete as it is, probably will become a classic case study on how a program can be subject to manipulation, exploitation and ultimately abuse, by people who have gained experience and expertise, initially, at least, at the expense of the taxpayers by virtue of their service to the Government.

It also is a blueprint on how they can take advantage of either innocence or ineptitude—or ultimately, if that does not work, and try and corrupt certain individuals. And that is something beyond the scope of our hearings, and independent counsel are pursuing those investigations.

But I do want to say for the record I think it is an important inquiry. I think that you have been persistent and tenacious, and tough, which is what I would have expected you to be; but you have also consulted me on every issue, and frankly, where I thought there was some sensitivity to trespassing upon the jurisdiction of the independent counsel, I said so, and you were most receptive to that. So I hope that we can continue to carry out the completion of the investigation with the same bipartisan spirit.

Senator LEVIN. First, Senator Cohen, let me thank you for your remarks. You are a person of total integrity and guts; you have displayed it in these hearings, may I say, because you again have been willing to state your position, and sometimes the position is in the middle of a very complicated situation. You spoke out very correctly, I believe, today relative to your view of Mr. Pyatt's character, and I think that is important. There will be some who could misconstrue those remarks.

I know that you are willing to take risks to do what is right; you always have been, you always will. You have been an absolute watchdog of our ethics laws, of our independent counsel law. You are willing to tread into sensitive areas, because you are the kind of guy is willing to call them as you see them and let the chips fall where they may. I admire you for that, and I thank you for your kind remarks. We have worked closely, and will continue to work closely, on these hearings.

The part here that is so sickening and revolting is the way the well-placed consultants and friends of insiders cashed in on this situation.

Again, let me make clear there is nothing I find objectionable about a President, a Member of Congress, or anybody else saying, "We should bring jobs to the South Bronx" or anywhere else, and if this program is a legitimate way to do that, let us use it. We would not be here today if that is all that happened. The reason we are here today is that the stockholders and employees—not in that order—the employees and the stockholders, and the taxpayers, even more important, of Wedtech and the taxpayers of the United States were left holding this bag after the high-placed consultants and lobbyists emptied most of it.

We are going to complete these hearings, and again, the timing is the only uncertain part. But we will now adjourn these until an uncertain time—hopefully, at the end of this year. And again, let me thank Senator Cohen for his very close and forthright cooperation.

The Subcommittee is adjourned.

[Whereupon, at 3:47 p.m., the Subcommittee was adjourned subject to the call of the Chair.]

APPENDIX

24 September 1987

Statement of David C. de Vicq

Mr. Chairman and members of the committee, I am David C. de Vicq, former Sealift Support Facilities Acquisition Manager at the Naval Facilities Engineering Command from September 1983 until February 1986. On 1 March 1986 I retired as a Captain, Civil Engineer Corps, United States Navy with over twenty-eight years service.

When I assumed the duties of Program Manager, the procurement of pontoonery and spares, principally for the critical initial loadout of three squadrons of Maritime Prepositioning Ships, was planned, scheduled and funded for unrestricted competetive bidding. The scope of work, specifications, drawings, required delivery schedules and other bidding documents were undergoing final preparation by NAVFAC field activities in Port Hueneme, California and Davisville, Rhode Island. The scope of the procurement was not only for powered and nonpowered pontoonery but for the substantial software associated with weapon system procurement. The software requirements included such diverse and detailed deliverables as scheduling, production and MIL-Q quality control documentation; meantime to failure analyses, technical change proposal procedures, parts lists, maintenance procedures and production quality plans and specifications. In short we were readying an important, complex and time sensitive procurement of some size and significance.

Late in the fall of 1983 we received what appeared to be routine requests from the ASN (I&L) staff to discuss setting aside a portion of the procurement for small business. My staff responded with briefings which noted that although nonpowered pontoonery had been routinely procured from a variety of small and large businesses ever since pontoonery was successfully used in World War Two, this procurement included the initial production run of powered units whose engines were in-the-hull as opposed to skid mounted outboard units. Further, the power was to be applied useing water jet pump technology rather than by means of screw propellars. We also stressed that the procurement was of unusual size and was to be accomplished under weapons system procurment procedures, i.e., with extensive software requirements. Finally we stressed the requirement that a range of deliverables, both hardware and software, be available for initial outloading of MPS ships in a very carefully time phased plan dovetailing with the arrival of other USMC and USN cargo and planned operational test and evaluation exercises. Our position was that the procurement should continue as planned to unrestricted competetive bid. Our compromise position was that a portion of the nonpowered and spare pontoon requirements, those with far less critical delivery dates, could be set aside if required although we felt that we would be paying more since there would obviously be duplicative start up costs for jig fabrication, tooling and plant modifications. We were prepared to adjust the quantities of deliverables in the procurement package up to a week before advertisement. We stated that we did not know of a small business firm capable of the size and complexity of our present requirements.

In mid January of 1984, we were ready to place the Commerce Business Daily notice for competetive bid when Mr. Pyatt's Office scheduled a formal meeting to again discuss the set aside issue. Mr. Pyatt chaired the meeting. I recall VADM Hughs and VADM Roden were present as were various members of the ASN staff. NAVFAC was represented by the then Vice Commander, RADM Jones, Mr. Buonaccorsi and I. The basic question posed to us was why couldn't the majority if not all of the work be set aside for a section 8(a) company.

The reasoning we presented was essentially that outlined above. We noted that if a complete set aside occurred, we would prefer to bear the costs of only one major start-up tooling effort since funding had been based on costs estimated for a competetive bid situation. We acknowledged that significant portions of the work could and probably would be subcontracted to large or small business firms. We also noted that if 8 (a) were directed, we would probably have to procure and provide long lead time engines and pumps for perhaps six to ten of the first powered units. The more senior Naval Officers stressed the danger and cosequences of delivery slippage most forcefully. The SBA advisor's position was that small business could do the job if big business could and that time could be saved by avoiding some of the procedural steps required in competetive bidding.

I do not recall a firm decision being announced at the meeting but rather that Mr. Pyatt was inclined to make a full set aside if we failed to convince him otherwise. I do not recall that he stated his own reasoning. I left with great forboding. Within a day we were advised that the entire procurement would be set aside for 8(a) award.

In less than a week the notification of set aside letter, statement of required contractor qualifications and a set of the extant plans and specifications were hand delivered to SBA headquarters. We were able to brief SBA's nominee contractors on about the 25th of January. I led the briefing team and stressed two items: (1) stringent delivery requirements and (2), weapons system software requirements including MIL-Q Quality Control. Cdr Sullivan, former Operations Officer of an Amphibious Construction Battalion, narrated photo and graphic slides showing virtually all of the pontoon types and the conditions under which they must operate. Mr. Stevens, the principle engineer on my staff, discussed key technical matters related to design, engineering and fabrication. Mr. Ridgeway, a career software specialist specifically hired to assist in the Sealift Support program, presented a complete flow chart of the software requirements, their interdependence and breadth. Questions were encouraged throughout the three hour session. We received rather few questions from the two nominees present, Wedtech and Medley.

In the first week in February, I led a team of NAVFAC Headquarters and field people to visit both Wedtech and Medley facilities. At each site we were joined by local DCAS and SBA representatives. We briefed the companies on our purpose, which was to begin to ascertain if either or both of the companies appeared to have the resources to execute the contract successfully. We stressed that we were not then conducting a preaward survey. We entertained such briefings and tours as the companies wished to provide. Since my team included a broad spectrum of expertise, each member concentrated on different aspects of the facilities shown, labor force observed, office functions described and expansion plans put forth. In closed team meetings at the end of each visit, I polled the members on two questions: (1) did they feel the contractor could do a good job and (2) did they think the contractor could not successfully perform the work. The concensus was that Medley would be a much greater risk than Wedtech, that neither could be clearly demonstrated incapable and that even Wedtech would be extremely hard pressed to provide a quality product on schedule. In the next few days team members reviewed their notes and provided final written or oral input to my office. After briefing my superiors at NAVFAC and OPNAV that Wedtech was the safer of two marginal choices, SBA was advised to direct Wedtech to submit their proposal and prepare for negotiations at the earliest possible date. The proposal was received in the last week of February.

Our Procuring Contract Officer (PCO) in Davisville reported that the Wedtech proposal lacked detail in several areas. Clarifications were requested and responses received on both sides, allowing negotiations to commence in early March. Agreement was reached in about 30 days. Although I was not a member of the negotiation team, I maintained close contact with the PCO and was aware that changes in proposed sources and subcontractors as well as difficulties in obtaining details of labor requirements complicated both audit and negotiation efforts. Interestingly enough, Wedtech always maintained that they could meet the delivery schedule and did not seek to negotiate changes therein. The price finally agreed upon required that I obtain additional funds from OP-42 before award could actually occur. Although SBA may have been very active behind the scenes with Wedtech, they favored direct negotiations between the PCO and Wedtech and were relatively quiet when they attended.

Wedtech's Corporate performance in New York could be characterised as energetic but inefficient, exuberant but often unskilled, full of optimistic oral plans, promises and bright tomorrows but short on accomplishment and follow through: lots of try but elusive success. I have selected a few problems for more detailed discussion below but will not attempt to recall and catalog all the different problems encountered. Those chosen are meant to illustrate the range of difficulties which impacted Wedtech performance.

Wedtech's South Bronx production planning and progress reporting, both essential to schedule adherence and projection, were woefully inadequate. Indeed the government team had to initiate a data collection procedure with the contractor in order to track progress against plan and to allow us to make more realistic projections of key test, inspection and delivery dates than were otherwise obtainable. The programs used, calculated status and projections were always shared with the contractor.

Quality control in South Bronx was poorly managed, inadequately documented and failed to produce solid corrective action. Pontoon modules, powered unit hulls and assembly rails had to be rejected, reworked and several times scrapped and replaced before plate cutting errors, jigging fixture design and welding procedures were corrected and controlled. I should note that no such problems were tolerated at the Ontonagon shipyard eventually employed to produce nonpowered units. The Michigan operation was a heads up quality job from start to finish.

Housekeeping and safety practices at both the South Bronx fabrication plant and assembly yard were often appalling. Fortunately few accidents involving human injury occurred. However, the clutter and inadequately ventilated welding fumes led to worker inefficiency and clearly avoidable damage to material, equipment and work in progress. At one point, safety and industrial hygiene were so bad that DCAS New York threatened to remove it's inspectors from the plant. While this issue may seem small, it is indicative of a lack of management concern or acumen which produced a perhaps small but nevertheless constant reduction in efficiency and increase in rework.

Wedtech utilized subcontractors for the production of certain low volume pontoon types and for important mechanical installation work on powered units being assembled in the South

[illegible]

[illegible]

[illegible]

[illegible]

with the Navy Small Business Advocate, Mr. Saldivar, a scope formula acceptable to Mr. Pyatt's staff was developed and approved. Concurrently we mounted a team to visit a candidate set aside contractor in San Diego, provided him with plans and specifications and received a preliminary proposal. I concluded my tour before final decisions on funding of the 1986 option were received from OPNAV. I do not know what reasoning final funding produced. Accordingly I cannot offer any information on subsequent events related to Wedtech.

During my tour as Program Manager I recieved the normal number of Congressional Staff inquiries one would expect with a program such as ours. None of the contacts by staff members were out of line or out of the ordinary. I did not feel any unusual pressure from any political entity. The pressures I felt were internal to the Department of the Navy. The Fleet needed and wanted a quality product on time and was not about to accept less without a very thorough and convincing explanation. The Secretariat no doubt shared the Fleet's concerns but was more vocal in its desire to see a successful 8 (a) experience. They too were loath to settle for anything less. Obviously, the only way to satisfy both the Fleet and the Secretariat was for the procurement team to do everything possible to make the contractor apply his very best effort to succeed: and that is exactly the course we persued.

-END-

Colonel Don H. Hein
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24 September 1987

Senator Carl Levin
United States Senate
Committee on Oversight of
Governmental Management
Washington, DC 20510-6250

Dear Senator Levin

I received your letter notifying me of the committee hearing and your request for a written statement on 22 September 1987. The following remarks are intended to address the issues as best as I can recall them.

From July 1984 until June 1986 I was Commander of the Defense Contract Administration Services Management Area (DCASMA) New York. I was responsible for field administration of more than 8000 assigned government contracts with an approximate value of $3 billion. I directed the functional activities of contract management, quality assurance, and small business. Pre-award, property, and financial services were under contract management.

WEDTECH's performance on the pontoon contract: In my opinion the performance on this contract was substandard and in the begining it was unacceptable. Never during my tour of duty was a single causeway delivered on time in accordance with the contract schedule. Quality control and workmanship was very poor at the start. This is specially significant since this was not new technology, but World War II, 1940's technology. We used pontoons then. The only new item was the engine and drive system which was not made by WEDTECH, but by another company and installed for them. Further, WEDTECH, was unable to even prepare a production plan which was required by the contract. The Navy engineers under Capt Dave De Vicq made repeated efforts over several months to teach WEDTECH personnel how to prepare and keep one current. In fact the Navy set up the computer and the basic program to manage the production plan.

The award of the 1985 and 1986 pontoon contract options to WEDTECH: I do not recall all the information concerning the 1985 option except that the Navy personnel I had contact with did not want it to be awarded to WEDTECH. They wanted a reliable source.

Although I do not have my notes or files I do recall the 1986 option situation fairly well. Three pre-award surveys were accomplished to the best of my knowledge. The first two were basically financial only as the Navy would not allow us to do one including quality. These pre-awards recommended no award to WEDTECH. The third one was taken out of my hands. Captain Kelly had replaced Captain De Vicq in the program office. Captain Kelly wanted the option given to WEDTECH, so he convenced my superior, B/G St. Arnaud, to handle it. Because of labor/union problems WEDTECH's bank kept changing the date the credit line would be approved. More important the cash flow statements prepared by WEDTECH made no sense. Three of these were accomplised in one month and all were very different! Further, as usual WEDTECH tried to ignore the DCASMA's request for financial information. One of the concerns of the time was the fact that to our knowledge WEDTECH provided progress payment requests and estimate-to-complete studies to the DCASMA showing losses on their contracts. At the same time financial papers used for the pre-award survey did not show these losses. We believe the financial information given the Securities and Exchange Commision did not show these losses as well. Despite all this the third pre-award survey recommended award of the option to WEDTECH.

The extent to which WEDTECH used political pressure to influence procurement decisions of the SBA, the Navy, DCAS, or other federal agencies: This is a difficult question to answer because we were at the bottom of the totem pole. We saw what we thought was influence, but have little first-hand knowledge. For example the program office notified me on a Friday evening that they were going to advertise in the Commerce Business Daily the next option on the pontoon contract. That after notifying me they were going to tell the company. By Monday morning the Navy had been told to cancel the advertisement. Further, I would hear through the Navy contract office at Rhode Island, that WEDTECH had "complained" through congressional channels that DCASMA New York was not treating WEDTECH fairly. This translated to making WEDTECH conform to contract technical specifications. Again, Mr Erlich told me he had diner each Tuesday or Wednesday with Senator D'Amato and he and Mr Moreno discussed how the DCASMA was treating WEDTECH. From the feedback I received from Mr. Erlich in the form of questions concerning issues discussed at these diners, I could tell that the information given the Senator was inaccurate at best. For example, Mr. Erlich came in the morning after one of the diners and stated that Mr. Moreno had told Senator D'Amato that the DCASMA was not accepting pontoons because there were not bolted together correctly. Mr. Moreno had assured the senator that they were bolted in accordance with proper technical data. I took out the blue prints and showed Mr. Erlich that the pontoons were infact welded and that Mr. Moreno's accusation were false. Perhaps the most telling was the air WEDTECH executives had: that they did not have to follow the DCASMA's directions or requests. It was apparant that they felt they could go over our heads and take care of any situation that arose.

Senator Levin, I am looking forward to testifying and seeing this situation finally addressed in the appropriate manner.

Respectfully,

Don H. Hein

DON H. HEIN
Colonel, USAF

NATIONAL ASSOCIATION OF BLACK 8 (a) FIRMS

Henry T. Wilfong Jr., CPA
President
Former Associate Administrator/
Minority Small Business
U.S. Small Business Administration

Kenneth Jackson
Executive Director

STATEMENT OF
HENRY T. WILFONG JR, CPA
PRESIDENT
NATIONAL ASSOCIATION OF BLACK 8(a) FIRMS
AND
FORMER ASSOCIATE ADMINISTRATOR FOR
MINORITY CAPITAL OWNERSHIP DEVELOPMENT
SMALL BUSINESS ADMINISTRATION

BEFORE THE
SUBCOMMITTEE ON OVERSIGHT OF GOVERNMENT MANAGEMENT

SEPTEMBER 29, 1987

MR. CHAIRMAN AND DISTINGUISHED MEMBERS OF THE SUBCOMMITTEE:

I HAVE VERY MIXED EMOTIONS AS I APPEAR BEFORE YOU ON THIS MATTER. NATURALLY, I AM VERY PLEASED THAT MY INPUT MAY HELP CONGRESS IN DISCHARGING ITS RESPONSIBILITIES TO THOSE OF US WHO ELECTED YOU. I AM EXTREMELY CONCERNED THAT WHAT'S HAPPENING WITH WEDTECH AND THE 8(a) PROGRAM DOES NOT CAUSE MANY TO BE HURT BECAUSE OF THE ACTIONS OF A FEW.

111 No. La Brea, Suite 600, Inglewood, California 90301 • (213) 412-1927

MY CHIEF CONCERN ABOUT WEDTECH

I'VE BEEN INVOLVED WITH "BLACK CAPITALISM" OR MBE SINCE THE LATE 60's, EARLY 70's. OVER THE YEARS I'VE OBSERVED THAT ALMOST INVARIABLY, WHEN THESE PROGRAMS ARE ABUSED IT'S BY NON-MINORITIES. EACH TIME THE CRY FOR REFORM CAUSES THE PROGRAM TO BE SO CHANGED THAT MINORITIES COULD NO LONGER BENEFIT FROM THE PROGRAM AS THEY OUGHT TO.

IN OTHER WORDS, "THEY STEAL THE BACON, WE GET THE BLAME".

AND NOW COMES WEDTECH. WHAT THEY PURPORTEDLY DID AT WEDTECH IS CRIMINAL IN NATURE. IT HAS LITTLE TO DO WITH THE 8(a) PROGRAM. AT WEDTECH, THEY STOLE MONEY FROM THE CORPORATION, THEY PURPORTEDLY BRIBED PUBLIC OFFICIALS, AND THEY LIED TO SBA. NONE OF THESE ACTS WERE APPROVED PROGRAMMATIC ACTIONS. SO WHY THE CALL FOR "PROGRAM REFORM"?

THE THINGS THAT HAPPENED INSIDE SBA ARE CAUSE FOR CONCERN, I BELIEVE, BUT ARE THEY THINGS THAT REQUIRE "PROGRAM REFORM"? THERE WERE A NUMBER OF "IRREGULARITIES" THAT I OBSERVED AT SBA, AS RELATES TO WEDTECH AND THE PONTOON PROJECT.

LIST OF IRREGULARITIES

- THERE WERE TWO "SEARCH LETTERS" FROM THE SAME REGION.
- THERE WAS NO APPARENT PROGRAMMATIC REASON FOR THE ISSUANCE OF THE SECOND.
- THE EFFECT WAS A "HOLDING PERIOD" OF CONFUSION THAT DELAYED THE TIMING OF A DECISION ON A CONTRACTOR.
- THE CONFUSION ALLOWED WEDTECH TO CURE ITS PROBLEMS WITH THE SEC AND SBA RULES AND ALL OF A SUDDEN BECOME ELIGIBLE AGAIN.
- I DID NOT SIGN WEDTECH'S "BRIDGE LETTER" NOR IT'S "EXTENSION" LETTER TO REMAIN IN THE PROGRAM.
- THE LITTLE FIRM FROM SAN FRANCISCO, THE SUBJECT OF THE SECOND SEARCH LETTER, HAD NEVER DONE WORK OF ANY MAGNITUDE BEFORE, AND NEVER DID ANY SINCE. IT'S ALMOST AS IF THEY WERE "CHOSEN" AS A STALKING HORSE FOR WEDTECH.
- AAMSB/COD DID NOT SELECT WEDTECH -- SOMEONE ELSE DID. IF WE HAD STAYED WITH THE SYSTEM THAT WE NORMALLY USED -- AND THAT THE RULES AND

REGULATIONS PRESCRIBED -- WEDTECH WOULD NOT HAVE GOTTEN THIS CONTRACT.

MY CONCERN ABOUT POLITICAL PRESSURE

THERE ARE TWO KINDS OF POLITICAL PRESSURES THAT MAY BE USED IN THE 8(a) PROGRAM: THERE'S GOOD AND THERE'S BAD. THE WEDTECH CASE, I BELIEVE, GIVES GOOD EXAMPLES OF BOTH.

ON THE ONE HAND, YOU HAVE AN HONORED, DISTINGUISHED U.S. SENATOR LEADING AN EFFORT TO BRING THE PONTOON CONTRACT INTO THE 8(a) PROGRAM. HIS GOALS ARE HONORABLE. HE'D LIKE TO INCREASE EMPLOYMENT IN HIS STATE AND HE'D LIKE TO SUPPORT THE MINORITY BUSINESS PROGRAM THAT HIS PRESIDENT SO STRONGLY SUPPORTS. SUPPORTING HIS EFFORT, YOU HAVE A HOST OF LOCAL GOVERNMENT TYPE WHO LOBBY THE MINORITY SMALL BUSINESS (MSB) SHOP AT SBA HEAVILY.

ADDITIONALLY, YOU HAVE AN EXCELLENTLY PERFORMING 8(a) CONTRACTOR WHO IS NOT AT ALL HESITENT ABOUT TELLING YOU AND SHOWING YOU WHAT AN EXCELLENT TRACK RECORD THEY HAVE. THEY ALMOST OVERWHELM YOU WITH INFORMATION. THEY HAVE A "RIGHTEOUS CAUSE" AND THEY ACT LIKE IT.

THAT'S ALRIGHT. THIS KIND OF PRESSURE IS GOOD. WE'RE THERE TO SERVE OUR CONSTITUENTS. AND I THINK IT'S OKAY FOR THEM TO REMIND US IN THESE KIND OF WAYS.

ON THE OTHER HAND, THERE'S ANOTHER KIND OF PRESSURE THAT I FIND UNCOMFORTABLE IF NOT TOTALLY OBJECTIONABLE. THOSE OF US THAT ARE SENSITIVE TO IT CAN OFTEN FEEL IT, THOUGH YOU DON'T SEE IT. IT'S INSIDIOUS, INNOCUOUS -- IT'S USUALLY ON YOU BEFORE YOU SEE IT. AND IT CAN OFTEN DO YOU SERIOUS HARM.

THIS WAS PRETTY MUCH WHAT HAPPENED WITH WEDTECH. THE PRESSURE, AT LEAST AT MY LEVEL, WAS PRETTY MUCH UNSEEN. IT WAS BROUGHT BY INSINUATION RATHER THAN DIRECTNESS. YOU SENSED IT RATHER THAN FELT IT. IT'S LIKE A LINEBACKER BLIND SIDING YOU. WEDTECH PRETTY MUCH "SURFACED" BY OTHERS BEING ELIMINATED.

THOUGH IT SHOULD HAVE BEEN MY RESPONSIBILITY TO SELECT THE CONTRACTOR FOR THE PONTOON CONTRACTOR, I DID NOT SELECT WEDTECH FOR THIS AWARD. AS A RESULT OF A SERIES OF "WIERD" OCCURENCES AND CIRCUMVENTIONS OF SBA 8(a) RULES AND REGULATIONS, THEY ENDED UP WITH IT. TO THIS DAY I DO NOT CLEARLY UNDERSTAND EXACTLY HOW IT HAPPENED. I FELT AT THE TIME, AND STILL FEEL, THAT THE DECISION WAS NOT FAIR NOR PROPERLY MADE I FEEL THAT

WE SUFFERED FROM THE EFFECTS OF THE HISPANIS AGENDA. (THE EFFORT TO SEND A "MESSAGE" TO THE HISPANIC COMMUNITY TO SECURE VOTES FOR THE PRESIDENT.)

WHAT WENT WRONG WITH PONTOONS - WEDTECH

THE BASIC PROBLEM IS THERE WAS INTERVENTION OF OUTSIDERS (OUTSIDE MSB) INTO THE PROGRAMMATIC PROCESS:

- WHY WAS THE PONTOON TREATED SO DIFFERENTLY THAN OTHER 8(a) PROJECTS?
- AAMSB/COD TRIED TO KEEP IT ON TRACT AND PUT IT TO BED QUICKLY AND SMOOTHLY.
- AAMSB/COD DID NOT ASK FOR "HELP" FROM UPSTAIRS, BUT GOT PLENTY OF IT.
- AAMSB/COD WAS ASSURED IT WOULD BE HANDLED ACCORDING TO OUR RULES AND REGULATIONS "WITH BROADER PARTICIPATION FROM 8(a) FIRMS ACROSS THE COUNTRY".
- IT BECAME A "CIRCUS" OF SORTS WITH WEDTECH ULTIMATELY WINNING OUT.

THE RESULT WAS THAT WEDTECH "GOT THE GIRL" AT A DANCE THEY WERE NOT ORIGINALLY INVITED TO.

HOW DO WE AVOID "WEDTECHS" IN THE FUTURE

FIRST, PLEASE DON'T DESTROY THE PROGRAM AND THUS THE FUTURE OPPORTUNITY FOR A HOST OF LAW-ABIDING CITIZENS WHO DESERVE THEIR CHANCE AT THE AMERICAN DREAM. REMEMBER THAT WHAT THEY DID AT WEDTECH, AND AT SBA, WAS OUTSIDE THE NORMAL, APPROVED PROGRAMMATIC CHANNELS.

YOU DON'T HAVE TO CREATE A LOT OF NEW SAFEGUARDS, RULES AND REGULATIONS. YOU HAVE GOOD ONES. JUST MAKE SURE THEY'RE ENFORCED AND FOLLOWED. WHAT WE HAD WITH WEDTECH WAS A PEOPLE PROBLEM. THAT'S THE TOUGHEST ONE TO DEAL WITH. YOU'VE GOT TO GET GOOD, DEDICATED PEOPLE, PUT THEM IN PLACE THEN SUPPORT THEM WHEN THEY DO THEIR JOB ACCORDING TO THE PRESCRIBED PROCEDURES.

I'M GLAD THAT YOUR SUBCOMMITTEE IS HERE TODAY, MR CHAIRMAN. HOPEFULLY, THE QUESTIONS AND POINTS WE RAISE WILL CAUSE PERSONS IN RESPONSIBLE POSITIONS AT SBA TO MORE FAITHFULLY DISCHARGE THEIR RESPONSIBILITY.

I HOPE THAT THE SENATE SMALL BUSINESS COMMITTEE WILL MONITOR THE SBA A LITTLE MORE CLOSELY. THIS I FEEL COULD GO A LONG

WAY TOWARDS KEEPING THE INTEGRITY OF THE PROGRAM INTACT.

I APPRECIATE THIS OPPORTUNITY TO APPEAR BEFORE YOU. I'D BE VERY PLEASED TO ANSWER ANY QUESTIONS YOU MAY HAVE.

STATEMENT OF
R. ROBERT SALDIVAR
DIRECTOR, OFFICE OF PROCUREMENT AND SUPPLY VETERANS
ADMINISTRATION
BEFORE
SUBCOMMITTEE ON OVERSIGHT OF GOVERNMENT MANAGEMENT
COMMITTEE ON GOVERNMENTAL AFFAIRS
UNITED STATES SENATE

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE, I AM R. ROBERT SALDIVAR, DIRECTOR, OFFICE OF PROCUREMENT AND SUPPLY, VETERANS ADMINISTRATION. PRIOR TO JANUARY 1987, I SERVED AS DIRECTOR, OFFICE OF SMALL AND DISADVANTAGED UTILIZATION, DEPARTMENT OF THE NAVY (NAVY), HAVING BEEN APPOINTED TO THAT POSITION IN OCTOBER 1984. I ALSO SERVED AS DEPUTY ASSOCIATE ADMINISTRATOR FOR MINORITY SMALL BUSINESS, U.S. SMALL BUSINESS ADMINISTRATION (SBA) IN 1983 and 1984. YOU HAVE ASKED ME TO TESTIFY ON CERTAIN MATTERS PERTAINING TO THE WEDTECH CORPORATION BASED ON MY ASSIGNMENT TO THE ABOVE NAVY AND SBA POSITIONS.

IN YOUR LETTER OF SEPTEMBER 18, 1987, YOU ASK THAT I ADDRESS FOUR SPECIFIC ISSUES. SINCE I NO LONGER HAVE ACCESS TO SBA OR NAVY FILES, MY ANSWERS ARE BASED LARGELY ON MY RECOLLECTION OF EVENTS THAT OCCURRED AS LONG AS 3 OR 4 YEARS AGO. FOLLOWING ARE MY RESPONSES TO EACH OF THE ISSUES.

1. THE DECISION TO BRING THE PONTOON CONTRACT INTO THE 8(a) PROGRAM.

SUBCONTRACTORS FOR CONSIDERATION ON THE PONTOON CAUSEWAYS SYSTEM. I BELIEVE TWO OF THE PROPOSED SUBCONTRACTORS WERE MEDLEY TOOL OF PHILADELPHIA, ANOTHER SECTION 8(A) FIRM, AND ADVANCE MARINE, A SMALL BUSINESS FIRM FROM NORTHERN VIRGINIA.

I WAS NOT INVOLVED IN THE SELECTION OF WEDTECH CORPORATION FOR THIS PROJECT.

3. THE NEGOTIATION OF THE PONTOON CONTRACT BETWEEN WEDTECH, THE SBA, AND THE NAVY.

THE SBA NEW YORK REGIONAL OFFICE WAS RESPONSIBLE FOR NEGOTIATION OF THIS PROCUREMENT ON BEHALF OF THE SBA. THE SBA NEW YORK DISTRICT OFFICE MAY HAVE ALSO BEEN INVOLVED. I BELIEVE THE SBA NEGOTIATIONS TEAM WAS HEADED BY MR. AUGUSTUS ROMAIN, SENIOR CONTRACT NEGOTIATOR.

AS I RECALL, THE SBA NEGOTIATIONS TEAM CALLED THE ASSOCIATE ADMINISTRATOR FOR MINORITY SMALL BUSINESS, MR. HENRY WILFONG, AND ME, AS HIS DEPUTY, AFTER REACHING AN APPARENT IMPASSE OVER PRICE. NAVY REPRESENTATIVES ALSO CALLED ME REGARDING DIFFICULTIES IN REACHING AGREEMENT ON PRICE. THE ASSOCIATE ADMINISTRATOR AGREED TO MEET WITH ALL PARTIES IN THE SBA CENTRAL OFFICE TO REVIEW THE MATTER AND PROVIDE ASSISTANCE IN REACHING SOME AGREEMENT. AFTER SEVERAL MEETINGS SOME PROGRESS WAS MADE, BUT A DIFFERENCE OF OVER $2 MILLION REMAINED BETWEEN THE NAVY'S FAIR MARKET PRICE AND WEDTECH'S REVISED PRICE PROPOSAL.

FINALLY, NAVY INDICATED THAT UNLESS SBA WAS WILLING TO COVER THE DIFFERENCE WITH BUSINESS DEVELOPMENT EXPENSE (BDE), THE PONTOON CAUSEWAYS REQUIREMENT WOULD BE WITHDRAWN FROM THE SECTION 8(A) PROGRAM. WE REJECTED THE PROPOSAL FOR COVERING THE PRICE DIFFERENCE WITH BDE AND INSTRUCTED THE SBA REGIONAL OFFICE TO WORK WITH WEDTECH TO IDENTIFY ANY OTHER POTENTIAL FOR REDUCING ITS PRICE OR WE WOULD HAVE TO RELEASE THE PROJECT FROM THE SECTION 8(A) PROGRAM. LATER, REGIONAL OFFICE PERSONNEL CALLED THE ASSOCIATE ADMINISTRATOR, MR. WILFONG, TO INDICATE WEDTECH WOULD ABSORB MOST OF THE $2 MILLION IF SBA WOULD PROVIDE ABOUT $200,000 IN PRICE DIFFERENTIAL. ALTHOUGH MR. WILFONG WAS VERY RELUCTANT TO APPROVE ANY MORE BDE FOR WEDTECH, HE FINALLY AGREED.

4. WEDTECH'S PERFORMANCE OF THE PONTOON CONTRACT.

THE NAVAL FACILITIES ENGINEERING COMMAND (NAVFAC) WAS PRINCIPALLY RESPONSIBLE FOR MONITORING AND EVALUATING CONTRACTOR PERFORMANCE FOR THE NAVY ON THE PONTOON CAUSEWAYS SYSTEMS CONTRACT. TECHNICALLY, THE DEFENSE CONTRACT ADMINISTRATION SERVICES REGION (DCASR) IN NEW YORK WAS RESPONSIBLE FOR CONTRACT ADMINISTRATION.

AS DIRECTOR FOR THE NAVY SMALL BUSINESS OFFICE, I ALSO MONITORED PROGRESS ON THE CONTRACTOR'S PERFORMANCE BECAUSE OF THE IMPORTANCE AND MAGNITUDE OF THIS PROJECT. I, IN TURN, KEPT THE OFFICE OF THE ASSISTANT SECRETARY (S&L) AND THE SBA INFORMED ON PROBLEMS ASSOCIATED WITH PERFORMANCE ON THIS CONTRACT. THE CONTRACTOR EXPERIENCED CONSIDERABLE START-UP PROBLEMS. NAVY

ASSIGNED SEVERAL TECHNICAL PERSONNEL TO PROVIDE ASSISTANCE TO THE CONTRACTOR. THIS PRACTICE WAS NOT UNCOMMON IN NAVY'S SUPPORT OF SMALL BUSINESS DEVELOPMENT EFFORTS. OF COURSE, NAVY WAS ALSO CONCERNED ABOUT THE PRESSING NEED FOR PONTOON CAUSEWAYS TO OUTFIT MPS SHIPS.

I ALSO PARTICIPATED IN DEVELOPMENT OF A PROCESS TO INTRODUCE LIMITED PRICE COMPETITION IN FUTURE PROCUREMENTS OF PONTOON CAUSEWAYS. HAVING TESTED PRICE COMPETITION ON ANOTHER SECTION 8(A) PROCUREMENT, I PROPOSED A COMPETITIVE PROCUREMENT BETWEEN WEDTECH AND ANOTHER SECTION 8(A) FIRM. NAVY AND THE SBA SUPPORTED THIS APPROACH AS AN ALTERNATIVE TO EXERCISING THE SECOND OPTION UNDER THE WEDTECH CONTRACT. THE SECOND 8(A) FIRM WAS EVALUATED AND FOUND CAPABLE TO PARTICIPATE IN THIS COMPETITIVE PROCUREMENT. HOWEVER, JUST PRIOR TO RELEASE OF THE REQUEST FOR PROPOSALS (RFP), NAVY DETERMINED THAT REVISED QUANTITIES FOR REQUIRED PONTOON CAUSEWAYS DID NOT JUSTIFY STARTING A SECOND PRODUCTION LINE FOR THIS PROJECT.

MR. CHAIRMAN, THIS CONCLUDES MY PREPARED STATEMENT. I WILL BE PLEASED TO ANSWER ANY QUESTIONS YOU OR OTHER MEMBERS OF THE COMMITTEE MAY HAVE.

STATEMENT
OF
L. WAYNE ARNY, III
ASSOCIATE DIRECTOR
FOR NATIONAL SECURITY AND INTERNATIONAL AFFAIRS
OFFICE OF MANAGEMENT AND BUDGET
BEFORE THE
SENATE SUBCOMMITTEE ON OVERSIGHT OF GOVERNMENT MANAGEMENT
SEPTEMBER 30, 1987

Mr. Chairman and Members of the Subcommittee: My name is Wayne Arny. I am the Associate Director for National Security and International Affairs at Office of Management and Budget. I was the Principal Deputy Assistant Secretary of the Navy (Shipbuilding and Logistics) from August 1984 to August 3, 1986, when I was appointed to my current position.

I am pleased to testify before this Subcommittee today on my involvement, in my former position, in overseeing the WEDTECH contract to build powered causeways for the Department of the Navy and in recommending the exercise of the contract options with WEDTECH. I believe that the difficulties we experienced with the WEDTECH contract were not atypical of the 8(a) Program and serve to highlight why the program must be modified to introduce competition. Competition in 8(a), when coupled with a finite tenure in the program, would better serve the national interest while continuing to provide Federal Government assistance to minority small businesses. It would also assist 8(a) firms in preparing for what I believe is the aim of the program -- graduation to the status of a normal small business or ultimately a big business.

I was appointed Principal Deputy on August 6, 1984. At the time of my appointment, the original contract with WEDTECH had already been awarded. On August 27, 1984, I was asked to attend a meeting between officials from the Small Business Administration, the Naval Sea Systems Command, and the Naval Facilities Engineering Command. The meeting was called to discuss two 8(a) Programs for sealift support -- the first program involved two separate minority small business contracts to build SEASHEDS, and the second was the WEDTECH contract to build powered causeways.

The meeting began with a discussion of the SEASHED program between the SBA officials and two officials from the Naval Sea Systems Command (NAVSEA), one civil servant and one officer. The officer was Captain C. H. Piersall, USN. My impressions from the discussions were that there had been growing pains in the beginning of the program for both contractors, but through NAVSEA and SBA assistance, both were now producing satisfactorily.

The meeting then moved to the program with WEDTECH. The discussions took place between the SBA officials and two officials from the Naval Facilities Engineering Command (NAVFAC), one civil servant and one officer. The officer was Captain D. C. de Vicq, CEC, USN. This review, unlike the previous one, raised significant questions. Both the SBA and NAVFAC officials disagreed on several significant points, including the delivery of government furnished equipment, WEDTECH's projected production capability, the performance of the contractor and the performance of the Government.

I was concerned with the extent of the conflicting allegations, as well as with the disagreement between the SBA and NAVFAC personnel over who was responsible for the difficulties. I was new in my position and unfamiliar with 8(a) contract oversight. I did, however, recognize the importance of the Navy's need for off-loading capability for its sealift forces, as well as the demanding deployment schedule for the maritime prepositioning forces.

Consequently, on September 10, 1984, I requested that NAVSEA provide me with a thorough, independent assessment of the entire powered causeway program. I further requested that the assessment be completed by September 28, 1984, and I asked that the assessment be conducted by Captain Piersall. I knew Captain Piersall from my previous position, and I knew he had experience with amphibious and sea lift programs. More importantly, he had been present during the discussion of the WEDTECH contract and had heard an explanation of the difficulties firsthand. From the earlier discussions at that meeting it was also apparent that he had experience in overseeing 8(a) programs, and had been successful in bringing two separate 8(a) contractors up to satisfactory production standards in the SEASHED program.

On September 17, 1984, I received an interim report from Captain Piersall. He had visited the agencies responsible for oversight of the powered causeway contract, as well as WEDTECH. The report stated that WEDTECH's production facilities, material, and workforce were, in Captain Piersall's opinion, sufficient to complete the first ten powered causeways, if government furnished water-jet pumps were delivered in a timely fashion.

The report further noted that late delivery of the water-jet pumps would impair WEDTECH's timely performance of the contract, and highlighted two risks to completion of the causeways -- a lack of clear understanding by WEDTECH of the inspection requirements in the contract, and a misunderstanding by WEDTECH of its responsibility for the performance, when installed, of the government furnished pumps. Captain Piersall recommended that these issues be resolved by providing WEDTECH with clear written correspondence to eliminate further misunderstandings. The report included his assessment that WEDTECH would be able to deliver the causeways on a schedule slightly behind the contract schedule, but nevertheless on an acceptable schedule to support the maritime prepositioning ships.

On September 28, 1984, I received Captain Piersall's final report. In it he noted that a number of significant actions had taken place subsequent to his interim report, but that timely delivery of the government furnished water-jet pumps remained a problem that would affect WEDTECH's delivery of the causeways. The issues raised by WEDTECH regarding inspection requirements and WEDTECH's liability for the performance of installed government furnished pumps, however, had been resolved. He included a number of additional recommendations to improve production and delivery. Significantly, he noted the high quality of the work being performed by WEDTECH, and stated that, in his opinion, WEDTECH had the resources necessary to meet the Navy's operational requirements for causeways, including the option quantities.

On October 3, 1984, I forwarded a copy of Captain Piersall's report to each organization involved, requesting that they review the report and take action to implement the recommendations. On November 13, 1984, I received a response to Captain Piersall's final report from Captain de Vicq, the officer at NAVFAC responsible for oversight of the WEDTECH contract, that also noted the high quality of WEDTECH's work product.

After reviewing Captain Piersall's report and Captain de Vicq's response, I felt that, although WEDTECH was not performing the contract on time, the delays which had ensued were not solely attributable to WEDTECH. Morever, a "learning curve" was to be expected, especially with a new 8(a) contract in which the contractor was performing a particular type of work for the first time. In addition, the contract, if taken away from WEDTECH, in all likelihood would have been awarded to another 8(a) firm with which the "learning curve" would have begun anew, exacerbating the delays which we had already encountered.

In summary, the contract had been awarded to WEDTECH prior to my arrival, and I felt it was my job to make it work, if at all feasible. I did not want to delay production and receipt of the causeways any further and all the indications I had just received were that WEDTECH would be able to perform and build quality causeways. Therefore, on November 19, 1984, I signed a memorandum to NAVFAC requesting that negotiations be undertaken with WEDTECH to reach a fair and reasonable price for the Fiscal Year 1985 options.

Subsequently, as difficulties persisted with the program, I decided to visit WEDTECH in New York in April 1985 to view their facilities firsthand. I was impressed, as were the members of the Shipbuilding and Logistics staff who accompanied me, with the actions that were being taken to correct production problems.

WEDTECH was having problems in achieving precise repeatability. That is not to say that one could tell at a glance that each unit was not exactly the same as the next. Rather, they were just outside the specified range of tolerances in "form and fit" of the units.

The powered causeway is made up of an assembly of pontoons amd powered modules. The pontoon section consists of thirty-three modules arranged three modules wide and eleven modules long resulting in a causeway or floating pier arrangement. The powered section consists of three large modules -- two powered modules and a center module containing a fuel tank, batteries, anchor housing and accessories.

The entire powered causeway system is designed to be loaded on board a cargo ship. When the ship reaches the objective area, the powered and non-powered causeways are lowered into the water and used to ferry cargo from the ship to the shore. The cargo could be lifted directly from the ship onto the causeways, or the causeways could be positioned at the end of the ramp of a roll-on-roll ship and rolling stock could be driven directly on to them.

Interchangeability (that is form and fit within acceptable tolerances) was, therefore, an important factor. WEDTECH's difficulties, as they were explained to me by their new production engineer, were not with the quality of the individual worker's product, but rather with the way they had set up their production line, an error resulting from the fact that WEDTECH's previous work had been primarily as a machine shop type operation. When they used these "machine shop" techniques on a large product line, they were able to build the unit, but they were unable to get precise repeatability.

WEDTECH obviously had realized they had a problem, because they had hired the new production manager. Most significantly, he seemed to have had extensive experience in shipbuilding. He not only knew the community, but he was able to clearly articulate why he had stopped the production line, how he planned to rebuild the jigs to ensure repeatability, and how, in general, he was going to improve the entire production process.

It was at this point that I realized fully that we had also misplaced oversight of the WEDTECH contract with NAVFAC. WEDTECH was not building just causeways, but in fact, mini-ships. Oversight over the contract had been placed with NAVFAC because the civil engineers, the Sea Bees, were the end-user of the product. NAVFAC's primary expertise was in real estate and military construction of bases and buildings. Because the causeways, with their pilot houses, propulsion systems, fuel systems and steering systems were mini-ships, contract oversight should have been placed with NAVSEA. NAVSEA had the experience in oversight of shipbuilding contracts, and they would have been able, from the beginning of the contract, to provide WEDTECH with more experienced technical assistance.

As a result of my visit to WEDTECH and my realization of the role NAVSEA could play in the contract, I requested that the Navy Supervisor of Shipbuilding in Brooklyn conduct a second independent review of the contract performance. The report, provided in response to this request, was encouraging. The jig-assembly technique instituted by the new production manager appeared, in all likelihood, to have solved the interchangeability problem. It was estimated that projected delivery dates would improve as a result of a recent facility upgrade, resulting in an expected recovery of the schedule upon completion of the rework phase. The report concluded with a statement that WEDTECH was found to be undertaking an ambitious "get-well" program, with the potential for satisfactory completion of the contract.

It had been recommended to me on more than one occasion to compete the program. I agreed with that general recommendation, but I felt that because we had agreed to make causeways an 8(a) program, the project would have to stay 8(a), unless there were very unusual circumstances. Consequently, we decided to try to compete the project by using a "dual source" competition to split the powered causeway production between two qualified 8(a) contractors.

I was comfortable that we could use the dual-source approach and still remain in the 8(a) program, because we had accomplished something similar, earlier that year, on the 8(a) SEASHEDS program. We had been asked by the two SEASHED contractors, who had separately been producing but not competing for the SEASHED contract, and their supporters to award the lion's share of the 1985 award to one particular contractor or the other. This was a dilemma because we had no clear substantive way to measure the performance of the two 8(a) contractors that would not involve subjective assessments which would inevitably be questioned by either party. We did, however, uncharacteristically, have two qualified 8(a) contractors, and therefore decided to attempt to initiate a dual-source competition. We met with both contractors and their representatives separately to discuss the idea. We also met with SBA officials at the political and staff levels to convince them we needed to compete the contract, and with staff members from at least one Small Business Committee. Our efforts were eventually successful, and the SEASHED contract was competed to the satisfaction of all the parties involved.

Powered causeways were intended to be our second attempt at 8(a) competition. Initially, we were budgeted to buy more than enough units for the Navy and the Army in 1986 to start a second source, and our only internal debate was how many to award to the second contractor. We had even identified, and the staff had visited and approved of, a minority small business on the West Coast who was a shipbuilder. Moreover, we had decided to switch contract oversight from NAVFAC to NAVSEA, and both commands had agreed. Unfortunately, as a result of budget cuts, and changed plans, the number of units we needed to buy became so small that I was advised we would not have enough to make a dual-source competition work. As a result, we exercised the 1986 option with WEDTECH. Even though deliveries were still late, they were delivering, and I was told quality was still good.

Mr. Chairman, in your letter requesting my testimony, you inquired as to the wisdom of selecting WEDTECH -- or any 8(a) firm -- to perform the powered causeway contract. Because I was not involved in the initial award of the WEDTECH contract, I am unable to comment on the wisdom of that particular selection. I do, however, feel qualified to comment on the wisdom of selecting 8(a) firms to perform similar contracts, and on why competition is necessary and can work in the 8(a) program.

If we do not award larger, more complex projects, such as the one with WEDTECH, to 8(a) firms, we will never be able to get them into major manufacturing. I understand, as is typically the case, that SBA identified WEDTECH as the contactor for this project. A better solution in the future may be for SBA to tell the the agency involved that the project is set-aside and have the agency find a qualified 8(a) contractor. That being the case, perhaps the Navy would have found the West Coast shipbuilder, as happened when we went looking for a second source for the powered causeways. Alternatively, the Navy might have been told to advertise that the project was open to all qualified 8(a) firms. There may have been even more fledgling, but capable, firms identified that might have been able to handle the project.

I also believe that the nature and philosophy of the 8(a) program, even with competition, mandates that once you pick a contractor or set of contractors, you must work with them over the long haul to achieve a quality product. The Government will not be able merely to monitor the program, as it does with most other programs, it will have to provide more assistance and encouragement than normal. It must not relax its standards of quality nor its negotiations on firm and fixed prices, but it must be prepared to help educate the company and make sure that the program does not have overly severe delivery standards that might be demanded of established businesses. It was my experience that even the established businesses are more than susceptible to schedule slippages.

In conclusion, Mr. Chairman, I believe there are two keys to successful utilization of 8(a) programs. First, we must continue to limit the timeframe in which a business can remain eligible for 8(a) contracts. The purpose of the 8(a) program must be to help minority businessmen become self-sufficient. It is counter productive to allow them to remain forever in what is, in effect, a Government subsidized program.

Second, we must instill competition into such programs. Competition is not a panacea, nor is it the absolute solution, but its benefits can be significant. Competition within the 8(a) program would serve to ensure that the government receives what is, in fact, the closest we can get to a fair and reasonable price, not one determined to be reasonable by government estimates that are often subject to question. I believe competition would also serve to help 8(a) firms transition into the real business world. It gives them experience in developing competitive bids so that they will be able to compete effectively after "graduation" from the 8(a) program -- which must remain the true objective. Lastly, competition removes the tendency for businesses to bring pressure to bear on their elected representatives to ensure a contract award. Competition brings a simple answer to such pressure. It reduces the question to whether the procurement was fairly administered and whether the contract or, in appropriate circumstances, the largest portion of the contract was awarded to the lowest responsible and responsive bidder.

I sincerely hope that I have addressed the questions in you letter, and I am ready to answer any additional questions you may have.

Thank you.

STATEMENT OF

EVERETT PYATT

Mr. Chairman and distinquished members, I am Everett Pyatt, Assistant Secretary of the Navy (Shipbuilding and Logistics).

I am pleased to appear before this committee for the purpose of presenting for the record such information as I can relating to Department of the Navy 8(a) contracts with the Wedtech Corporation for pontoon causeways.

At the outset, let me state that the Department of the Navy recognizes its obligation -- an obligation with related Congressionally mandated goals -- to implement the 8(a) program, which provides socio-economic benefits to disadvantaged businesses. We believe that the program could broaden the industrial base, ultimately benefiting the mobilization base necessary for the defense of our nation.

By its very nature, however, the 8(a) program restricts competition by reducing the universe of potential contractors. That is, of course, contrary to our philosophy of competition which we can show ultimately results in savings to the taxpayer. Furthermore, the 8(a) program encourages us to takes risks in procurements that we would not be taking in a competition environment. Inherent in the program is split responsibility between the procuring agency and the SBA.

Turning specifically to the 8(a) award to Wedtech for pontoon causeways, my records and memory reflect the following chronology of events:

I first became aware of interest by the Small Business Administration (SBA) to set aside our pontoon causeway program in the Summer of 1983 upon receipt of correspondence from Members of Congress asking that we give consideration to particular minority business concerns. Because of the size and complexity of the program, however, I responded by advising that I was of the opinion that an 8(a) set-aside was not proper and that the program should be competitively bid as a small business set-aside.

In the Fall of 1983, we received our first official request from SBA to set aside the pontoon causeway program, and Mr. Richard Ramirez, the Navy's Director, Small and Disadvantaged Business Utilization, rejected the request. Mr. James Sanders, Administrator of SBA, appealed Mr. Ramirez' decision to the Secretary of the Navy.

Shortly after the SBA formal appeal, I met with Mr. Sanders at his request to discuss the possibility of an 8(a) set-aside for the pontoon causeway program. Mr. Sanders told me that he desired to promote metal fabrication as a minority business initiative. I agreed to reconsider my previous decision recognizing that there was no factual basis to reject this goal. He agreed to forward the names of candidate contractors so that we could evaluate performance capability. At these early stages the name of Wedtech did not come up.

On January 6, 1984, I sustained the SBA Secretary-level appeal by advising them that we would set aside the entire 1984 pontoon causeway procurement. On January 30, 1984, Mr. Sanders advised me that he accepted our offer to place the 1984 pontoon causeway procurement program with SBA, and that he was designating Wedtech to be the contractor candidate for this 8(a) set-aside. The decision concerning Wedtech as the lead contractor was exercised solely by SBA, as required by law and regulation. I am not aware of any political pressure that was exerted on SBA or Navy bearing on the award of the Wedtech contract. Furthermore, I am not aware of any political pressure that was exerted at any time in connection with the Wedtech contract, pre- or post-award.

After independent evaluation of Wedtech's capabilities by the prospective program manager, followed by extensive negotiations with Wedtech and the SBA on fair market price of the 1984 contract, on April 17, 1984, we awarded Wedtech a base contract for $24,234,807 with options for 1985 and 1986, consistent with our original plan to award a base year and options. When those options were exercised, the total value of the contract came to $134,680,714. Prior to termination of the Wedtech contract for default in December of 1986, 65 powered and 127 non-powered causeways were satisfactorily delivered, completing the 1984 base contract and the two 1985 option contracts. As of the time of default, none of the hardware for the two 1986 options, totaling just more than $49,000,000, had been delivered. Wedtech is, of course, still liable under the contract pending completion of bankruptcy proceedings.

I was concerned with reports of delays in the delivery schedule, issues of quality assurance, and cost performance reporting under the 1984 base contract. In September of 1984, and again in May of 1985, I caused Commander, Naval Sea Systems Command, to conduct independent reviews of Wedtech's capability to perform the options under the contract. Based upon those reviews, which were favorable to Wedtech, the 1985 and 1986 options were exercised.

In retrospect, the performance of Wedtech prior to default was satisfactory despite initial start-up problems -- arguably caused by the Navy as well as the contractor -- which caused delays in the delivery schedule. Such start-up problems are not at all uncommon in start-up awards, however, and delays are one of the risks related to new programs.

The overall result of the project by Wedtech was to deliver approximately two-thirds of the items for which we contracted, but their default required a reprocurement. From a socio-economic point of view, I consider the program to be a failure because a minority business was not sustained.

With the Committee's indulgence, I now would like to depart from the Wedtech 8(a) set-aside specifically and address some broad aspects of the 8(a) program.

Last year, the Fiscal Year 1987 National Defense Authorization Act provided for a small disadvantaged business goal for the Department of Defense of five percent for the Fiscal Years 1987-1989. The law and implementation guidance by OSD place special emphasis on utilization of the 8(a) program. Effectively, the goal has created an atmosphere of additional pressure to contract under the noncompetitive 8(a) proceedings whenever possible.

In operation, firms certified by the SBA for 8(a) participation actively market for Navy requirements, approaching SBA to ask for designation of particular contracts for set-aside status. It is apparent that the SBA readily issues 8(a) acquisition letters to our contracting activities as requested by the marketing concerns. The results of our technical reviews on firms offered by SBA for specifically identified acquisition requirements evidence that SBA often has little or no knowledge of the firms' capabilities to perform the requirements it requested. Often firms seek Congressional and other assistance in support of the 8(a) reservation request. If the goals of the 8(a) and other small business programs are to be achieved, pressure to make awards to unqualified or under-capitalized concerns must stop.

The Navy intends to contribute its fair share to the DOD goal of five percent for small disadvantaged businesses, assuming the concomitant risks that goal brings with it.

I will be happy to answer your questions.

Key Dates on Pontoon Contract

November 8, 1983	SBA Administrator Jim Sanders requests set-aside of pontoon contract for 8(a) program
December 8, 1983	Everett Pyatt agrees to set-aside non-motorized pontoons
January 6, 1984	Mr. Pyatt agrees to set-aside entire pontoon contract
January 25, 1984	SBA approves three-year extension of Wedtech's 8(a) participation
January 25, 1984	Wedtech is named SBA's candidate for the pontoon contract
April 17, 1984	Wedtech is awarded the pontoon contract
October 29, 1984	Scheduled delivery of first Wedtech pontoon
November 19, 1984	Wayne Arny directs exercise of FY 85 Options
March 15, 1985	FY 85 Options awarded to Wedtech
May 24, 1985	Actual delivery of first acceptable Wedtech pontoon
April 29, 1986	First pre-award survey concludes that FY 86 Options should not be awarded to Wedtech
May 20, 1986	Second pre-award survey concludes that FY 86 Options should be awarded to Wedtech
May 21, 1986	FY 86 Options awarded to Wedtech
December 15, 1986	Wedtech files for bankruptcy

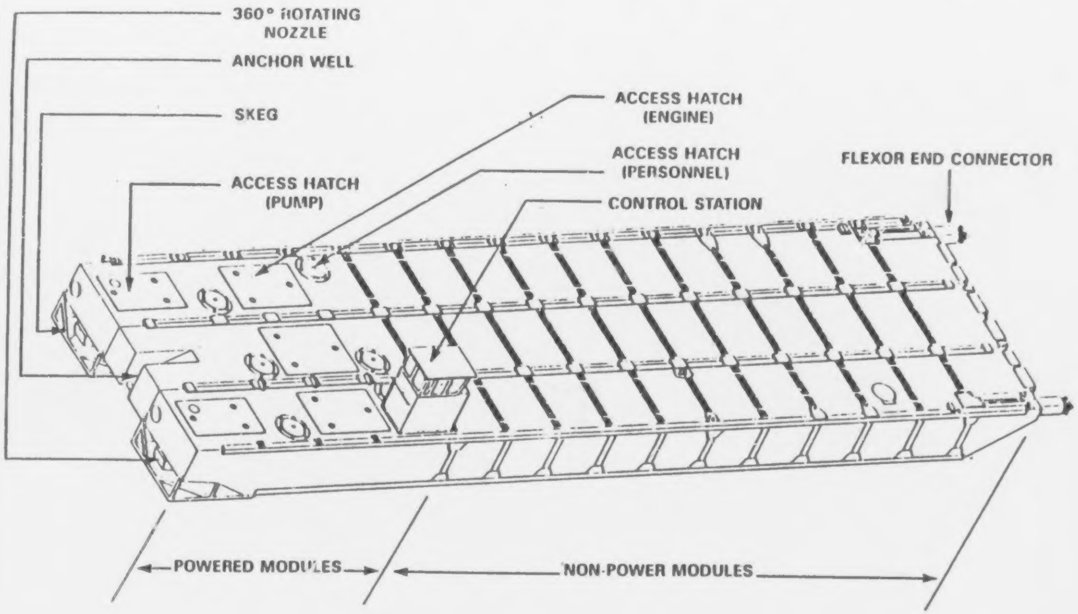
360° ROTATING NOZZLE
ANCHOR WELL
SKEG
ACCESS HATCH (PUMP)
ACCESS HATCH (ENGINE)
ACCESS HATCH (PERSONNEL)
CONTROL STATION
FLEXOR END CONNECTOR
POWERED MODULES
NON-POWER MODULES

EXHIBIT I

CAUSEWAY SECTION, POWERED

DEPARTMENT OF THE NAVY
OFFICE OF THE SECRETARY
WASHINGTON D C 20350

S&L

AUG 15 1983

The Honorable Paul Laxalt
United States Senate
Washington, D.C. 20510

Dear Senator Laxalt:

I am replying to your letter of June 14, 1983, regarding the possibility of awarding a contract to Univox-California for manufacture of Navy pontoons under a Small Business Administration 8(a) set-aside.

The equipment to be procured is a combination of powered and non-powered barge units which weigh approximately 100 tons each and are twenty-one feet wide and ninety feet long. Part of each craft is composed of rather basic welded steel pontoons, but the power modules for the powered barge units are technically demanding and will require major metal fabrication and handling facilities. The craft will be procured in finished form for delivery at specified west coast and east coast locations. Considering the size and weight of the completed units, direct access to a waterway for shipping will be essential.

The procurement program is expected to total several hundred million dollars over the next five years. For a program of this size, which could be carried out at a number of existing fabrication/shipbuilding facilities, the potential for competition and resulting economies to the government are extremely appealing. Therefore, we plan to procure the equipment competitively, rather than by 8(a) set-aside.

Please be assured that the Navy remains committed to the objectives of the 8(a) program and will continue to work with the Small Business Administration to that end.

A copy of this letter is being sent to Senator Hecht.

Sincerely,

Everett Pyatt

EVERETT PYATT
PRINCIPAL DEPUTY
ASSISTANT SECRETARY OF THE NAVY
(SHIPBUILDING AND LOGISTICS)

DEPARTMENT OF THE NAVY
OFFICE OF THE SECRETARY
WASHINGTON D C 20350

AUG 15 1983

The Honorable Harry Reid
House of Representatives
Washington, D.C. 20515

Dear Mr. Reid:

I am replying to your letter of June 16, 1983, regarding the possibility of awarding a contract to Univox-California for manufacture of Navy pontoons under a Small Business Administration 8(a) set-aside.

The equipment to be procured is a combination of powered and non-powered barge units which weigh approximately 100 tons each and are twenty-one feet wide and ninety feet long. Part of each craft is composed of rather basic welded steel pontoons, but the power modules for the powered barge units are technically demanding and will require major metal fabrication and handling facilities. The craft will be procured in finished form for delivery at specified west coast and east coast locations. Considering the size and weight of the completed units, direct access to a waterway for shipping will be essential.

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Please be assured that the Navy remains committed to the objectives of the 8(a) program and will continue to work with the Small Business Administration to that end.

For your information, responses on a similar inquiry from Senators Laxalt and Hecht have been provided.

Sincerely,

EVERETT PYATT
PRINCIPAL DEPUTY
ASSISTANT SECRETARY OF THE NAVY
(SHIPBUILDING AND LOGISTICS)

DEPARTMENT OF THE NAVY
OFFICE OF THE SECRETARY
WASHINGTON, D C 20350

AUG 15 1983

The Honorable Chic Hecht
United States Senate
Washington, D.C. 20510

Dear Senator Hecht:

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Sincerely,

Everett Pyatt

EVERETT PYATT
PRINCIPAL DEPUTY
ASSISTANT SECRETARY OF THE NAVY
(SHIPBUILDING AND LOGISTICS)

PROPOSED ACQUISITIONS OF PONTOONS-CAUSEWAYS

FY 1984 - 1988

	FY 1984	FY 1985	FY 1986	FY 1987	FY 1988
Causeway, Self-Propelled	19 units Total Price: $18.5 Mil	34 units Total Price: $44.2 Mil	50 units Total Price: $65.0 Mil	60 units Total Price: $78.0 Mil	20 units Total Price: $26.0 Mil
* Self-Propelled Warping Tugs	10 units Total Price: $10.7 Mil	17 units Total Price: $22.1 Mil	16 units Total Price: $20.8 Mil	26 units Total Price: $33.8 Mil	6 units Total Price: $7.8 Mil
* Non-Powered Causeway Sections	48 units Total Price: $6.2 Mil	83 units Total Price: $12.4 Mil	54 units Total Price: $8.0 Mil	39 units Total Price: $5.8 Mil	19 units Total Price: $2.8 Mil
* Elevated Causeway	1 unit Total Price: $11.0 Mil	1 unit Total Price: $12.4 Mil	1 unit Total Price: $12.4 Mil	0 units	1 unit Total Price: $12.4 mil

* Total prices for fiscal years 1986-1988 are based on FY 1985 unit prices.

DEPARTMENT OF THE NAVY
OFFICE OF THE SECRETARY
WASHINGTON D C 20350

12 September 1983

MEMORANDUM FOR THE SECRETARY OF THE NAVY

VIA: MR. PYATT

Subj: Puerto Rican/Procurement Initiatives - Ship Overhaul and Related Steel Fabrication Program, i. e., Sealift Program/Causeways

Issue: Governor Luis Ferre Meeting with the Vice President, September 14, 1983, and Requested Meeting with SECNAV

Former Governor Ferre is interested in increasing DoD business in Puerto Rico and has been working directly with the White House Task Force for many months and will be meeting with the Vice President this week. Among topics to be discussed will be his interest in establishing referenced facility in Ponce, Puerto Rico. Of immediate attraction to the business development plan for this proposed facility, are segments of Navy's causeway and pontoon program which they perceive could be accessed via the SBA Section 8(a) program. (Program forecast attached).

In response to a similar line of inquiry some months ago, we advised, via OSD Office of Economic Adjustment, that such a plan lacked feasibility given the general depressed state of the maritime industry. Based upon a protracted study developed by Temple, Barker, and Sloan, it is now reiterated that the development plan can succeed. Critical to its start would be preferential access to production level programs of the Department under the Section 8(a) aegis.

SBA is currently evaluating the developmental and financial issues and we can anticipate being tasked to reserve procurements for the project. Our previous position has been that we can achieve far greater economies and efficiencies through competition. Moreover, much of the causeway program could be procured as small business set-asides.

We have long pointed out that noncompetitive, albeit Section 8(a) reservations in this industry, would be counterproductive to our overall interests of preserving a competitively starved and highly capitalized industrial base.

Very respectfully,

RICHARD D. RAMIREZ
Director, Small and Disadvantaged
Business Utilization

DEPARTMENT OF THE NAVY
OFFICE OF THE SECRETARY
WASHINGTON D C 20350

5 October 1983

Mr. Joe Luna
Director, Office of Business
  Development
Small Business Administration
1441 L Street, N.W.
Washington, D.C. 20416

Dear Mr. Luna:

This will serve to follow up our meeting this morning concerning the Department's Causeway/Pontoon requirements and the interests of the SBA in pursuing a Section 8(a) procurement.

As you are aware, the Department has previously rejected SBA's pursuit of this program. Attached are copies of the relevant correspondence pertaining to SBA Region IX's request involving Univox of California.

Subsequently, there has arisen a flurry of further 8(a) interest stemming from both SBA Region IX and Region III, on behalf of Lee Engineering Corporation and Medley Tool Company, respectively. This office was also notified to the effect that SBA Region VI would also be requesting an 8(a) reservation in support of the business plan of Universal Canvas Corporation.

Similarly, we have been contacted by various principals from the Commonwealth of Puerto Rico who have espoused their anticipated 8(a) program approval and desires to satisfy the Navy's requirements for Causeways under their 8(a) status in conjunction with the Defense Department's Puerto Rican Procurement Initiatives program. Former Governor Luis Ferre, in cooperation with FOMENTO and the White House task force, has been working diligently to establish a broader business development base in Puerto Rico.

In light of the above and, in particular, the Department's previous decision regarding the Causeway Program, it is requested that SBA Headquarters assume the responsibility for final coordination of SBA's position in this matter. It would be most helpful if SBA could advise of its intentions concerning this program as soon as possible should it entail a formal appeal. In this event and absent the capacity of the Navy to conduct competition in the 8(a) arena, further pursuit of this program must be deferential to a specific firm or venture consistent with SBA's business development authorities.

Your prompt attention to this case would be appreciated.

Sincerely,

RICHARD D. RAMIREZ
Director, Small & Disadvantaged
Business Utilization

U.S. SMALL BUSINESS ADMINISTRATION
WASHINGTON, D.C. 20416

OFFICE OF THE ADMINISTRATOR

NOV 8 1983

Honorable John F. Lehman, Jr.
Secretary of the Navy
Washington, D. C. 20350

Dear Secretary Lehman:

Following the excellent briefing provided to me on the Department of the Navy's Causeway Program by members of your staff, I have concluded that this Navy project would be an excellent requirement for the Small Business Administration's 8(a) Program. Therefore, pursuant to Public Law 95-507, I am requesting your personal intervention to reverse the decision against 8(a) participation by the Office of the Principal Deputy Assistant Secretary of the Navy (Shipbuilding and Logistics).

There are several 8(a) firms in our portfolio who have the capabilities required for the successful performance of this Navy project. We, therefore, further request that Navy reserve portions of the Causeway Program for award under the SBA's 8(a) authority.

Upon acceptance of this request to use the 8(a) Program for this requirement, SBA will provide Navy with a list of qualified 8(a) firms for Navy's consideration.

Your favorable consideration of this request and continued interest and support of the Small Business Administration's 8(a) Program is greatly appreciated.

Yours truly,

James C. Sanders
Administrator

DEPARTMENT OF THE NAVY
OFFICE OF THE SECRETARY
WASHINGTON D C 20350

8 December 1983

Mr. James Sanders
Administrator
Small Business Administration
1441 L Street, N.W.
Washington, D. C. 20416

Dear Mr. Sanders:

This is in response to your 8 November letter to the Secretary of the Navy concerning SBA's interest in reserving some of the Navy's FY84 Amphibious Causeway/Pontoon requirement for noncompetitive award under the Section 8(a) Program.

The Naval Facilities Engineering Command (NAVFAC) has been instructed to consider your 8(a) nominee for the production of non-powered causeway units and related components for FY84. It is anticipated that $3-4 million could be committed to the 8(a) Program in this area.

Please advise the Navy's Director, Office of Small and Disadvantaged Business Utilization, upon selection of your 8(a) candidate so that NAVFAC can commence evaluation.

Your continued interest in Navy programs is appreciated.

Sincerely,

Everett Pyatt

EVERETT PYATT
PRINCIPAL DEPUTY
ASSISTANT SECRETARY OF THE NAVY
(SHIPBUILDING AND LOGISTICS)

DEPARTMENT OF DEFENSE UNITED STATES OF AMERICA

DEPARTMENT OF THE NAVY
OFFICE OF THE SECRETARY
WASHINGTON, D. C. 20350

JAN 06 1984

Mr. James Sanders
Administrator
Small Business Administration
1441 L Street, NW
Washington, D.C. 20416

Dear Mr. Sanders:

This is in further response to your November 8, 1983 letter and to follow-up our subsequent discussion concerning the Navy's procurement objectives for Amphibious Support Equipment, specifically causeways.

SBA's interest in establishing a Section 8(a) program reservation for the FY 84 requirements for these items has been further reviewed. I am pleased to advise that the Department is willing to entertain the placement of the entire current year program for contracting with your agency. This offering represents an approximate $27 million opportunity for the production of both powered and nonpowered causeway units and components.

We anticipate that production level specifications and drawings can be made available to SBA no later than January 27, 1983. However, every effort is being made to expedite the procurement packages so that technical discussions could commence next week.

As has been discussed, the successful and timely execution on the production quantities of powered causeways is critical to the scheduled deployment of the Maritime Prepositioning Ships (MPS) set for next fall. As such, the full technical financial and administrative resources of your organization will likely be required in order to bolster this undertaking.

We are advised by the Naval Facilities Engineering Command, the procuring activity, that operational needs dictate that the delivery point(s) will be East coast locations. However, the exact procurement format and number of potential contracts has yet to be determined.

Also, we are able to confirm your general understanding concerning the potential breadth of this program. We can reasonably anticipate that as many as 400-600 CSNP and 250-300 PCS units may be required over the next five to six years. It is possible that our authorization for these items in FY '85 will increase substantially over that of this year. Enclosed for your general reference is the planned procurement estimate summaries for both sea sheds and flat racks which you requested. This information was recently provided to interested elements of the House Small Business and Appropriations Committees.

The Departmental Director of Small and Disadvantaged Business Utilization will work to coordinate the earliest possible meeting between the SBA and the procuring activity.

I trust you appreciate the significance of this project. To our knowledge a program of this scope and magnitude has never been undertaken through the Section 8(a) program.

Please be assured of the continued cooperation of the Navy in this and other business development interests of the SBA.

Sincerely,

Everett Pyatt

EVERETT PYATT
PRINCIPAL DEPUTY
ASSISTANT [illegible] OF THE NAVY
(SHIP[illegible]STICS)

Enclosures

OFFICER IN CHARGE
NAVAL FACILITIES ENGINEERING COMMAND CONTRACTS
DAVISVILLE, RHODE ISLAND 02854

631
4330
11 Jan 1984

MEMO TO CODE 612

Subj: IFB N62472-84-C-3116, Causeways

Ref: (a) Document N0024984RCND104 w/Amendment No. 1

Encl: (1) Section C
(2) Bidders List
(3) Government estimate

1. Enclosures (1), (2), and (3) are forwarded for procurement of the subject causeways per reference (a).

2. Small business set-aside is not recommended since small businesses typically do not have the extensive engineering, management and manufacturing resources which must be in-place at time of award to insure adherence to the accelerated delivery schedule and implementation on a timely basis of the specified management and quality assurance programs.

3. Section D, forwarded with the NAVFAC PC-3 procurement package, is inconsistent with reference (a) packing requirements but was reviewed and approved by PC-3.

W. E. Paul

W. E. PAUL
Principal Engineer

Copy to:
6A
6S

63
631

DEPARTMENT OF THE NAVY
OFFICE OF THE SECRETARY
WASHINGTON, D. C. 20350

#744

13 January 1984

1/24/84

MEMORANDUM FOR THE COMMANDER, NAVAL FACILITIES ENGINEERING COMMAND

VIA: CHIEF OF NAVAL MATERIAL

Subj: FY 1984 Requirements for Amphibious Support Equipment - Causeways

Encl: (1) PDASN(S&L) ltr of 6 Jan 84, to SBA

By enclosure (1), Navy agreed to entertain the placement of FY 1984 requirements for powered and nonpowered causeway units and components for contracting with the SBA under the procedures of Section 8(a) of the Small Business Act.

It is requested that every effort be made to expedite the procurement packages in order that technical discussions can commence in a timely manner with SBA.

Your cooperation and assistance is greatly appreciated.

RICHARD D. RAMIREZ
Director, Small & Disadvantaged
Business Utilization

19 January 1984

Car #165 at 1425 692-9242
CP5, Room 266, 1500, 692-3227

TAB CONTENTS

A Handout:
    Point Paper for 8a-N, 8a-1 and Re IFB-1
    Risk Comparison
    Delivery Comparison

B Additional Point Papers
    GFM
    Reviews, Audits and Approvals
    Critical ILS Aspects

C Additional Tables (3 & 4)
    Estimated Productiuon and Deliverey Schedules
    Time Durations to Achieve Award

D POA&M Original Unrestricted IFB

E POA&M 8 (a), Risk Normal

F POA&M 8 (a), Risk 1

G POA&M 8 (a), Risk 2

H Comparison POA&M 8 (a) 1 versus N

I All Alternatives S&F: TAT, FAT and MPS-1 Schedule

J Early - Late Tables
    Success
    Reject
    Failed Negotiation
    Restart IFB
    Summary

K Software Delivery Schedule

L Blank Paper

19 January 1984

FY 1984 Procurement for Sealift Support Facilities Program (SSFP)

- The approved SSFP Acquisition Plan called out an unrestricted competetive bid for the full system with full Integrated Logistics Support requirements, to meet the original Maritime Prepopsitioned Ships (MPS) sailing date schedule for MPS 1

- MPS 1 Ships being built or converted are being delivered on/or ahead of schedule. Unrestricted IFB delivery requirements were drastically accelerated to meet revised MPS 1 sailing dates. All activities up to the point of publishing the intent to procure in the Commerce Business Daily (CBD), were completed for a 12 January 1984 publication. The time duration from CBD to award of an unrestricted IFB is estimated at 74 days.

- On 4 January 1984, PDASN (S&L) orally advised PC-3 that the procurement would have to be set aside for disadvantaged small business under the "8a" program contracted by the Small Business Administration (SBA). DASN so advised SBA by letter on 6 January 1984. The CBD announcement process was therefore stopped. Preparations for an 8 (a) negotiated procurement were immediately undertaken. The procurement package will be ready to deliver to SBA no later than Monday, 23 January 1984. Δ's GOV ESTS, COVER LTR

- POA&M have been developed for a series of procurement procedures under which normal durations for various activities are compressed and certain extraordinary actions by the government are undertaken. The actions introduce cost, quality and schedule risks. The POA&M of principle interest today, are three: SOME NOT PRUDENT RISK
  - Successful SBA 8a with activities and durations as normally scheduled: Identified as "RISK N"
  - Same with authority from CNM and CNO to use exceptional procurement and ILS procedures which introduce considerable risk: Identified as "RISK 1"
  - A restarted Unrestricted IFB with authority from CNM and CNO to use some exceptional procurement and ILS procedures which introduce considerable risk: Identified as "IFB RISK 1"
  - The differences in procedure are outlined in TABLE 1.

ALL PRESUME
60 DAY THEN
1 PER 10 DAYS

- Possible Causeway Section Powered (CSP) delivery schedules for each case have been estimated. TABLE 2 shows the number of days that each of the fifteen CSP would be early or late compared to the MPS 1 depolyment schedule. Significant production requirements for other deliverables, not on the critical path, are not shown (6 SLWTs and 28 CSNPs).

- The 8 (a), RISK N (normal) POA&M results in failure to equip any MPS 1 ship with CSP prior to deployment. Risk 1 meets deployment of the first ship of MPS 1, marginally provides one of three CSP to the second ship, fails to support the third ship and meets the fouth ship's significantly later deployment schedule. IFB Risk 1 would comfortably meet all sailings.

19 January 1984

TABLE 2

Estimated Delivery Schedules for Causeway Sections, Powered

Risk Level of Contract Procedure Option		8a RISK N	8a RISK 1	IFB RISK 1
8 (a) Contract Award Dates		7 Dec 84	27 Jul 84	4 Apr 84
Deliveries vs Deployments	CSP			
Maersk #1 Deploys from Wilmington, NC On 3 November 1984	1st	Late 259	Early 39	Early 141
	2nd	Late 259	Early 29	Early 131
	3rd	Late 259	Early 19	Early 121
Maersk #2 Deploys from Wilmington, NC on 3 November 1984	1st	Late 259	Early 9	Early 111
	2nd	Late 259	Late 1	Early 101
	3rd	Late 259	Late 11	Early 91
Waterman #1 Deploys from Wilmington, NC on 3 November 1984	1st	Late 259	Late 51	Early 81
	2nd	Late 259	Late 61	Early 71
	3rd	Late 259	Late 71	Early 61
	4th	Late 259	Late 81	Early 51
Waterman #2 Deploys from Wilmington, NC on 3 February 1985	1st	Late 223	Early 31	Early 132
	2nd	Late 223	Early 21	Early 122
	3rd	Late 223	Early 11	Early 112
	4th	Late 223	Early 1	Early 102
General Dynamics #1 *	1st	Late 229	Early 62	Early 166

* Delivery points to be negotiated dependant on Contractor site. All dates shown are FOB contractor's plant, hence "Early x" may become "Late y".

TABLE 1

Elements of Risk for 8 (a) Procurement Procedure Options

Risk Level of Contract Procedure Option	8a RISK N	8a RISK 1	IFB RISK 1
8 (a) Contract Award Dates	7 Dec 84	27 Jul 84	4 Apr 84
Extraordinary Procedures Applied			
A Engine GFM	No	Yes	Yes
B Pump S/S GFM	No	Yes	Yes
C Site Survey Duration	14	7	0-7
D DCAA Audit Duration	90	60» 40	Not Req.
E Pre Business Clearance Duration	30	14	Not Req.
F Post Business Clearance Duration	30	5*	Not Req.
G Article Tested for ILS	FIRST	TENTH	TENTH

* One working week presumes NAVFAC sharing information prior to officially submitting request: an ongoing dialog with NAVMAT.

FY 19 SSFP Procurement: Government F nished Material

- This discussion centers on Powererd Causeway Sections (CSP) since they are the critical path item.

- Long lead items are 32,000 GPM water jet pumps and 425 horsepower diesel engines. If extra effort is not made, long lead will preclude meeting Maritime Prepositioned Ship (MPS) deployment dates, i.e., the contractor will not have time to procure.

- Prototype Side Loadable Warping Tugs (SLWT) did not occasion setting up a production line for pumps. Peerless made the prototypes on a one-up basis in the development mode. As developed, the pumps are the largest of their type known to have been built and require unusual metallurgy in the scrollcase/jet castings. Development was problematical but successful. Peerless did not win Jeffboat subcontract.

- The new CSP has never been production built before. It amounts to a SLWT without winches and "A" frame. CSPs and SLWTs require identical pumps and engines. The FY 1984 procurement must establish the Integrated Logistics Support (ILS) baseline for CSP production.

- Jeffboat SLWT pumps are from Ward Machinery Co. Ward has succeeded in production working from the procurement description as modified by developmental program with Peerless. Jeffboat has Ward producing to MILSPEC I vice MILSPEC Q. "Q" is required. Ward advises PCO that "Q" can be documented within two months of direction to document. Ward has a production line for Jeffboat and will dismantle it in March 1984. Jeffboat's cost is about $125,000 per pump at the current production rate for the current quantity run.

- No contract alternative will allow ordering of pumps prior to time Ward would strike the production line. No other manufacturer has or has had a production line. Ward estimates 150 days to re-establish a production line even with their prior experience. Only Ward and Peerless have previously solved the casting problems. Thirty pumps are required for FY 1984 procurement. Twenty need be sole sourced GFM to allow the delivery schedule identified as RISK 1. The estimated cost for 20 is 20 at $125,000 or $2,500,000 total.

- PCO advises that current diesel engine delivery times are 140 days - very close to the 150 day re-start for pump production. The crux of the contractor's fabrication problem is to marry pumps and engines in a successful powertrain bedded into what is otherwise a mundane pontoon section. Both prototype construction and Jeffboat SLWT first articles had problems getting this evolution sorted out. It is therefor critical the the FY 1984 CSP contractor not only get both the pumps and the engines on time but that he know their footprints and design details early enough to design the powertrain bed into the pontoon. Further, he needs the design information to initiate the Reliability, Maintainability and Avalability (R&MA) Analyses and Parts Mortality - Cost Trade Off analyses necessary to ILS configuration management. Twenty Engines need be provided as GFM (sole souce is not positively identified as a requirement). Jeffboat's source is Detroit Diesel at a cost of about $30,000 per engine. The twenty needed early in the FY 1984 procurement therefor estimate at $600,000 total.

FY 1984 SSFP Procurement: Critical Reviews, Audits and Approvals

- A series of Plans of Action and Milestones (POA&M) have been developed for procurement options ranging from established norms (which miserably miss delivery requirements for the MPS) to rather extroadinary procedures which entail varying levels of financial risk to the government. Goverment action items of the POA&M are here discussed.

- Site Surveys are comfortably accomplished and reported in from 30 to 45 days, depending on the product being procured. Twenty-one days have been allowed for the normal case, 18 for Risk Level 1 (moderate risk) and 14 for Risk Level 2 (significant risk). Site surveys are important to 8a procurements.

- Small Business Administration (SBA), Disadvantaged/Minority set aside (8a) contracts are negotiated and require a Defense Contract Agency (DCA) audit of the price proposal prior to seeking Pre Business Clearence from NAVMAT. The normal duration for audit is 90 days after receipt of a price proposal. POA&M RN (read risk level Normal), allows the full 90 days. POA&M R1 (read risk level 1), reduces that time to 5+55=60 days. POA&M R2 restores the audit duration to 90 days but presumes CNM authority to negotiate prior to audit and to award a contract subject to downward cost adjustment after award. FAC 021 knows of no precedent for this approach with an 8a contractor. Should downward adjustment be found necessary, countervailing political pressure is forseeable. TWO WAY STREET

- The normal time for NAVMAT to process a request for an audit supported Pre Business Clearance (PREBC) of a negotiated contract is 30 days and many have gone longer. R1 (read POA&M R1), and R2 allow 14 days. Both presume dialog between NAVFAC and NAVMAT as the PREBC request is being written.

- The normal time for NAVMAT to process an audit supported request for Post Business Clearance (POSTBC) of a negotiated contract is also 30 days and many indeed have gone longer. R1 and R2 reduce that time to 14 days. R2 presumes some parallel processing with NAVFAC followed by a 5 day NAVMAT approval.

FY 1984 SSFP Procurement: Critical ILS Aspects

TAT

- The concept of a First Article Test (FAT) is that tests be performed on the first article produced and that a configuration audit (a rigorous measurement and "pedigree" comparison of the article to analized Plans and Specifications) be conducted coincidentally. By analized is meant that selected incorporated sub-assemblies and parts have been subjected to analyses to determine RM&A, mortality, failure mode effects and cost trade-off information. In that process, the ability to meet performance specifications is estimated and more-costly-part versus more-frequent-repairs trade-offs have been selected. By pedigree is meant that parts which have previously been analized for some other ILS procurement are documented as being produced under stipulated inspection and quality control standards. This concept is close to the essence of ILS and is a pre-requisite to obtaining serial production authorization for those equipments which constitute the System we are seeking to procure.

- The non physical portions of the FAT, and most other aspects of ILS are called "software" herein. Significant effort by experienced personnel is required to produce such software to allow configuration audit at FAT. We do not believe that the CSP FAT can be completed in less than 180 days after contract award although we do believe that CSP can be produced in sixty days and that a production rate of one every ten days thereafter is achievable by an 8a contractor. R1 and R2 assume that we conduct the "FAT" on the TENTH versus the FIRST article. In so doing, the government would have to assume the financial and time liabilities (if any), should the "TAT" (10th article test) result in parts replacement or other rework to the first nine items, regardless of where or when the rework had to be accomplished.

- The "TAT" approach would be a distinct departure from our approved acquisition plan, ILS plan, OPTEVFOR norms etc. The FY 1984 CSPs cannot make loadout dates if the conventional FAT procedure is required.

Synopsis of 19 January Meeting

Time: 1530-1600 19 January 1984

Place: PDASN (S&L) Conference Room, CP-5, Suite 266

Subj: OP04 Reclama of PDASN (S&L) 8 (a) Decision

Pers: PDASN (S&L), Mr. Pyatt; OASN (S&L), Mr. Ramirez; COMMSC, VADM ROwden and civilian associate; OP04, VADM Hughes and USMC LTCOL associate; OP42, RADM Avrit; FAC 09, RADM Jones; FAC 021, Mr. Buonaccorsi; PC3, CAPT de Vicq; OP424, CDR Troy.

1. VADM Hughes stated purpose of meeting - to reclama decision to set aside the FY84 SFFP "Causeway" procurement for Small and Disadvantaged Business.

2. Handout was distributed and read by individuals. PC3 addressed tables 1 and 2.

3. Presentation and discussion centered on:

a. Unique Pump production line shut down date and delivery schedule requires Government Sole Source procurement as GFM of first 20 pumps for first 10 CSP. Pumps are 32,000 GPM estimated at $125,000 each for a total of $2,500,000.

b. Lead time for rotatable, 425 horsepower diesel engines, same quantity, requires Government Procurement as GFM and could require sole source. Engines estimated at $30,000 each: twenty to cost $600,000 total.

c. Actions a and b required for any procurement option now available.

d. Site survey has been compressed. FAC is seeking NAVSEA assistance in survey.

e. DCAA audit is useful to both contractor and Government (virtually essential to Government) but normal duration must be shortened to 60 days.

f. Pre and Post Business Clearances are presumed to be greatly accelerated

g. For any IFB case, CBD, bid time, etc., estimates to an award 74 days after decision to use IFB.

h. Delivery schedules shown are based on first unit 60 days after award and production rate of 1 unit every 10 days thereafter. Time to complete ILS test and configuration audit considered irreducible from 180 days. Accordingly, 9 CSP are presumed to be shipped before ILS test and configuration audit. Note that all data in Table 2 ignores shipping time from contractor's plant (presently an unknown location) to Wilmington, NC., hence "Early" notations could often be "Late".

i. CSP to be shipped are 90x21x8 feet and each weighs 90 tons. Contractor location on deep water is virtually required. Assembled units are neither roadable nor rail transportable. Ship or Barge transport or "drive away" essential unless secondary assembly and test facilities established at Wilmington, NC.

j. Greater Risk is attached to concept of testing Tenth rather than First Article. Major departure from ILS. Some changes bound to be uncovered and must be retrofitted to all preceding fabrications. In all likelihood, at government expense. Procedure risks authority to enter serial production. Significant support needed at future "DSARC" type reviews and to alter Acquisition Plan. No remaining procurement option will meet announced ship dates without Tenth Article Testing instead of First Article Testing.

k. Ships will sail with or without CSPs. Post deployment shipping cost to "catch up" with deployed unit would be high additional cost. CSPs cannot be stacked on top of other deck loads. CSPs are last item on ship. Only two MSC ships can lift 90 ton load for catch up transfer. Port cranes probably required. COM MSC noted that late November or early December deployments may actually transpire although published dates are as shown in handouts.

4. Mr. Pyatt asked if Jeffboat or another contractor could build power module of CSP and then have 8 (a) contractor assemble into CSP. Ans: No, split responsibility, added costs, shipping around between plants, ILS impacts etc., virtually preclude. Jeffboat does not recognize certain ILS requirements as being part of their contract and has refused to initiate MIL-Q requirements.

5. Mr. Pyatt asked if anyone knew of an alternative steel fabrication oriented procurement that could be offered to SBA in lieu of this one. No one responded.

6. A brief discussion of SBA contacts with Advanced Marine Enterprises was taken as a positive step by SBA to prepare for this program. The requirement for solid, experienced ILS software support was stressed.

7. Responsibility for costs associated with late delivery by an 8 (a) contractor was discussed. Mr. Pyatt opined that SBA should agree to pay as part of the deal. VADM Rowden questioned whether SBA could legally pay transportation costs. Mr. Pyatt was of the opinion that they could and said that in any event we will get it in writing from SBA.

8. Up front financing of an 8 (a) contractor was discussed. Mr. Pyatt opined that if the 8 (a) contractor did not have the production facilities now, prior to award, he could not play in the ballgame as it woul;d be impossible to meet scheduled delivery dates.

9. Summary Understanding. Proceed with 8 (a), Tenth Article Test concept with Pumps and Engines GFM for first 10 CSP. Give SBA package on Monday, 23 January 1984. Conduct brief of SBA with Mr. Ramirez at that time. Require name of candidate in seven days and initiate site survey. Support for change in acquisition plan, approval of sole source procurement of GFM, approval of Tenth Article Test concept, accelerated review of Pre and Post Business Clearances and accelerated conduct of DCA Audit will be forthcoming. NAVSEA assistance in site survey and government estimate preparation will be encouraged. PDASN (S&L) will authorize IFB if first nominee cannot show capability or cannot be brought under contract within negotiation ceiling.

10. Mr. Buonaccorsi reemphasized to Mr. Ramirez, after the meeting, that SBA will be given "one bite at the apple" which is to mean, come in with your best qualified now as there will not be any time left to go to another "SBA".

Notes on Telecon w/ Mr. Ramirez AM 20 January 1984

In two calls, the location, attendees and agenda for meeting with SBA on Notes Monday, 23 January 1984, were discussed.

1. Agreed to deliver package to SBA at 0930, suite 600, 1441 L Street, NW. Prime contact will be Mr. Joe Bennett or Mr. Hank Wilfong (653-6407).

2. NAVFAC will bring the package and present following information:

a. Information brief on entire program: LCDR Sullivan

b. Pass letter on Qualification Requirements.

c. Qualification Requirements, discussion of ILS related requirements: Mr. Ray Ridgeway.

d. Qualification Requirements, discussion of industrial requirements: Mr. Cliff Stevens.

e. Pass three sets of procurement package.

f. Summmarization of time frame for naming candidate, site survey and proposal: CAPT de Vicq

3. Car will be required for messrs Buonaccorsi, Ridgeway and LCDR Sullivan to transport procurement packages to SBA.

4. Captain de Vicq will go to Mr. Ramirez office at 0800 monday and proceed to SBA with him.

5. Mr. Ramirez was asked if he was bringing written information to SBA that SBA ought pay for any costs attendant to late delivery: namely transportation to deployed shiup and/or ship standby time. Mr. Ramirez said that SBA didn't pay such things and that an SBA contractor could not be held to tighter requirements than would a regular contractor. Captain de Vicq informed him that liquidated damages would be considered in an IFB should one be issued. Mr. Ramirez opined that Mr. Pyatt was miss informed if he felt that SBA had funds to underwrite such contingent costs. He pointed out that SBA had "BDE" with which they might buy and give a contractor certain tools or machines but did not have the sort of funds we were discussing.

6. Mr. Ramirez understands that SBA's prime candidate is a firm in the south Bronx, on the East River, which produces the military standard engine, is heavily into robotics, has automated laser cutting equipment and is a $40,000,000 company. He also understands that a second candidate, Medley Tool Co., is in downtown Philadelphia with access to the river.

7. Mr. Ramirez willpersonally call VADM Grinstead to alert him to the need for a prompt and expeditious DCA Audit.

8. Mr. Ramirez' first contact with SBA earlier in the morning revealed that SBA had intentions to break up the procurement and place it with more than one 8 (a) contractor. Mr. Ramirez told SBA that only one contractor was acceptable to Navy and that seeking more could scuttle the set aside. SBA said that the biggest political guns ever seen would seek multiple contractors.

Notes from Meetings w/Mr. Ramirez and Mr. Saldivar

1. As requested, I met with Mr. Ramirez at 0800, Monday, 23 January 1984 to accompany him to a meeting with Mr. Bennett of SBA scheduled for 0930 at SBA, 1441 L St NW. Mr. Ramirez informed me that SBA wanted multiple contractors, was much put off by Mr. Ramirez telling SBA that Mr. Pyatt's position was a single contractor, and that the meeting scheduled for 0930 was cancelled. Mr. Sanders and key SBA prople were at a meeting in Chicago - those remaining at "L" street apparently needed guidance. I advised Mr. Ramirez that I would like to deliver the package to SBA anyway, to start the process toward a contract. After several calls, Mr. Ramirez arranged for me to meet with Mr. H. Robert Saldivar, Deputry Associate Administrator of SBA. Mr. Ramirez could bnot go to SBA but said he hoped to go later when a presentation might be made.

2. LCDR Sullivan and I delivered a full set of plans, specifications and requirements to Mr. Saldivar at 1030, Monday, 23 January 1984. Mr. Saldivar cordially accepted the package, noted that he had just met with Mr. Sanders and, later, established 0930, Wednesday 25 January 1984 as an appropriate time to meet with him and the SBA team to make the presentations originally scheduled for Monday. I advised Mr. Saldivar that Navy needed the name of his candidate contractor on Monday 30 January 1984 in order to start site survey work. I also informed him that it was Mr. Pyatt's stated position to us that SBA would have to pay for "catch-up" shipping, should an SBA contractor fail to meet agreed upon delivery dates. Mr. Saldivar made no comment. I enquired about a consultant contractor to SBA for this project and was advised that "Advanced something" was working with them. When asked if he meant Advanced Marine Enterprises, he said yes. He offered no information on their relationship or tasking but did respond favorably when asked if they, Advanced Marine Enterprises, would attend the Wednesday briefing. At his request, I outlined the structure of the briefing to Mr. Saldivar and named the several people who would be present from NAVFAC. I also told him that I expected Mr. Ramirez would want to attend.

DEPARTMENT OF THE NAVY
OFFICE OF THE ASSISTANT SECRETARY
(SHIPBUILDING AND LOGISTICS)
WASHINGTON D C 20360

25 JAN 1984

Mr. James Sanders
Administrator
Small Business Administration
1441 L Street, NW
Washington, D.C. 20416

Dear Mr. Sanders:

This is to provide further information relative to my letter of January 6, 1984 which stressed the importance of the Navy's procurement objectives for Amphibious Support Equipment and our effort to provide the procurement packages to you at the earliest possible time. To that end, delivery of the production level specifications and drawings for the Amphibious Support Equipment was made to the Deputy Administrator, Mr. Saldivar, on Monday, 23 January.

I have reviewed the procurement manager's detailed analysis of production schedules and have concluded that only the most vigorous and innovative action to identify a contractor, achieve a contract, and to produce both the Integrated Logistics System Documentation and the physical hardware can meet Navy test and delivery requirements. Since the powered causeways must be deck loaded on their respective ships, they will be the last items loaded on the MPS. The ships will, however, deploy without the powered causeways if they are not available when all other necessary material is stowed. Accordingly, I feel that any transshipment costs, to ensure that the powered causeways catch up with ships actually deployed on or after the schedule contained in our procurement package, must be borne by the contractor, in this case SBA, as a condition for award of the contract.

The delivery schedule, as stated in Section F of the specification, is predicated on an award by 27 March 1984. To achieve that date, we must jointly expedite all significant actions. One such action is identification of the candidate contractor to enable a survey of plant facilities for adequacy. To that end, the name and plant location need to be communicated to the procurement manager by Monday, 30 January 1984.

As I noted in my letter of January 6, 1984, the scope and magnitude of the Amphibious Support Equipment procurement is a significant first for the Section 8 (a) program.

Please be assured that Navy will cooperate in every way possible to assure prompt action to achieve the many milestones necessary to obtain contract award and successful production.

Sincerely,

EVERETT PYATT
PRINCIPAL DEPUTY
ASSISTANT SECRETARY OF THE NAVY
(SHIPBUILDING AND LOGISTICS)

Blind Copy to:
CNO-OP-04
NAVFAC PC3

U. S. GOVERNMENT
SMALL BUSINESS ADMINISTRATION
26 FEDERAL PLAZA
NEW YORK, NEW YORK 10278

OFFICE OF THE REGIONAL ADMINISTRATOR

DATE February 24, 1984

REPLY TO ATTN OF Augustus C. Romain
Acting Chief, CND

SUBJECT SBA Causeway Systems Program

TO Joseph Bennett
Deputy Regional Administrator
Region III

The Administrator selected the following staff to serve on the SBA Causeway Systems Management Team:

Joseph Bennett - DRA, Region III, Team Leader
Robert L. Saldivar - Deputy Associate Administrator-MSB/COD
Jesse R. Quigley - ARA/MSB-COD, Region VI
Steve Bangs - ARA/MSB-COD, Region IX
Aubrey A. Rogers - DARA/MSB-COD, Region II
Augustus C. Romain - Acting Chief, Contract Negotiations, Region II

The SBA Causeway Systems Management Team met on February 22, 1984 to discuss the following issues:

A) Management Team Responsibilities.

Mr. Bennett stated that the primary responsibilities of the team are monitoring, providing advice and counsel, planning, problem solving, assessing program progress with the 8(a) firms, and serving as a liasion with the Navy. Mr. Bennett stressed the importance of the Management Team's total commitment to the program. He pointed out that this project provides an excellent opportunity for the SBA to demonstrate the competence and sophistication of our 8(a) contractors.

B) Engineering Consultant.

The SBA will engage an engineer to provide technical assistance, to monitor quality control systems, to conduct on-site reviews, and to monitor overall performance.

C) Status Meetings for Causeway Program.

The Management Team will attend each status meeting held with the Navy, Wedtech, and Medley.

D) The Point of Contact Within SBA.

Mr. Bennett stated that since Wedtech is located in New York, Augustus Romain will be designated as the point of contact with the Navy and DCASMA, New York.

E) Project Status.

The Technical proposal was hand-delivered to Naval Facilities Engineering Command on February 22, 1984.

The Cost proposal will be submitted to the Navy on February 27, 1984. Wedtech Corporation has assured the Management Team that the Cost proposal will be submitted on said date.

A meeting is scheduled with the Navy, Wedtech, and SBA at Davisville, Rhode Island on February 27, 1984 to discuss the Technical proposal.

F) SBA Causeway Systems Management Team Meetings.

Mr. Bennett stated that meetings will be scheduled once every month, however, all Team members should commit 4 to 5 days in each month until the program is completed.

The next meeting will be scheduled after further discussion with the Navy on the Technical and Cost Proposals.

Augustus Q. Romain
Acting Chief, Contract
Negotiations Division

cc: Bob Saldivar, Central Office
Jim Guyer, DRA, Region IX
Bob Quigley, ARA/MSB-COD, Region VI
Aubrey A. Rogers, DARA/MSB-COD, Region II

SYNOPSIS OF 25 JANUARY 1984 BRIEFING AT SBA

Time: 0930-1600 25 January 1984

Place: SBA Conference Room, 1441 L Street, NW, 10th Floor

Subj: Causeway Procurement Package: Navy Information Briefing to SBA and SBA invited contractor's

Pers: NAVY:
OASN (S&MB), Mr. Ramirez; PC3, CAPT de Vicq, LCDR Sullivan, Mr. Ridgeway, Mr. Stevens; FAC02, Mr. Timperly.

SBA:
Mr. Sanders (Two brief visits), Mr. Bennett (throughout), Mr. Saldivar (Intermittant), and others.

CONTRACTORS:
Advanced Marine Enterprises, Inc., 1725 Jefferson Davis Hwy., Arlington, VA 22202: Mr. Simon Glatz (CEO), Mr. Otto P. Jons (VP Eng).
Medley Tool & Model Co., 1950 Rockland St., P.O. Box 20918, Philadelphia, PA 19141, 215-324-1150: Mr. Elijah Medley (Gen Mgr), Mr. Clay Holland.
Wedtech, Inc., 595 Gerard St., Bronx, NY 147281, 212-993-0500: Mr. Juan O. Elevado, Jr., Mr. Ali Tabar, Mr. Mihai Soiman, Mr. John Mariotta, Mr. Mario E. Moreno, Mr. Vincent Sullivan, Mr. Lawrence C. Mc Closkey and Carlos Cuevas (Biaggi & Ehrlich, Counsel).

SUMMARY: Wedtech was not present in the morning. Various SBA personnel came and went, few stayed the entire day. Before the meeting, LCDR Sullivan delivered two additional sets of all plans, specifications etc to Mr. Saldivar's office. Mr. Ramirez introduced CAPT de Vicq who outlined briefing intentions. LCDR Sullivan showed viewgraphs and color transparencies of all equipment in system with emphasis on those items which are deliverable in the FY 84 procurement. An early break was taken for lunch and to allow arrival of Wedtech. After lunch, LCDR Sullivan went to Mr. Saldivar's office to bring the plans, specifications and total package to the conference room: they had not been opened since delivery by LCDR Sullivan and CAPT de Vicq to Mr. Saldivar, two days prior. Upon reconvening with Wedtech present, Mr. Stevens showed viewgraphs and identified the critical manufacturing problems experienced by others in the past. He outlined industrial equipment, space and specialized manpower requirements. Mr. Ridgeway posted the data requirements matrix and explained its vertical and horizontal headings, the meaning of shaded columns (plans requireing approval before manufacturing) and the "dots" within the matrix (signifying applicability). He stressed the importance and scope of the ILS system and documentation required. He estimated that the effort might require as much as ten percent of total manhours implied by the contract scope. CAPT de Vicq read the letter of requirements (Ltr from NAVFAC to SBA) and summarized Navy position and requirements, stressing the urgency of delivery of CSP and the tightness of the schedule, the use of one prime contractor, with sub contractors, the role of a systems consultant and the importance of ILS. LCDR Sullivan repeated his presentation for Wedtech, Medley and Advanced Systems stayed for the repeat presentation. All speakers allowed questions, received and answered same. No questions were put off to be answered later.

OTHER: Upon arrival, Mr. Ramirez handed the PDASN (S&L) letter of 25 January 1984 to the Deputy Administrator, SBA. No mention of the letter was made by SBA in our presence.

Jan 30, 84

J 1/31

Mr Pratt

Here is 2 Bits version of a new brochure.

We shopped it to FMC's where they are prepared to [illegible] their field service people to all points. Should the FMC find any merit in their approach, which I doubt, 2 Bit already will [illegible] to spend the B&F money all over the map. The Tape 5/0 is a [illegible] [illegible] [illegible] re Continent Basic [illegible]

→ [illegible]

Let's [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] 2-1-84

U.S. SMALL BUSINESS ADMINISTRATION
WASHINGTON, D.C. 20416

OFFICE OF THE ADMINISTRATOR

JAN 30 1984

Causeway

Honorable Everett Pyatt
Assistant Secretary of the Navy
Department of the Navy
Washington, D. C. 20350

Dear Mr. Pyatt:

On behalf of the Small Business Administration and pursuant to Section 8(a) of the Small Business Act, I am pleased to accept your offering for the production of causeway units and components estimated at $27 million for Fiscal Year 1984. This action is in support of the approved business plan of Wedtech Corporation, an 8(a) firm located in New York.

Wedtech will serve as the lead contractor for this project. Wedtech will engage Medley Tool Company, an 8(a) company located in Philadelphia, as a subcontractor for the powered portion of this requirement. Both companies will be assisted by Advanced Marine Enterprises, Inc., a major marine engineering firm with extensive experience in this field. The non-powered portion will be subcontracted to AMA Enterprises/Martinez Custom Builders, Inc., an 8(a) joint venture located in Brownsville, Texas. These companies will also be assisted by Advanced Marine Enterprises, Inc.

I am fully aware of the critical nature of the causeway program and I wish to assure you that the Small Business Administration will devote all resources necessary for the successful completion of the project.

I appreciate the cooperation provided by you and your staff to the Small Business Administration and to the proposed 8(a) subcontractors and I look forward to your continued cooperation during implementation of this project. I thank you for your confidence in our 8(a) subcontractors and for your support of the minority small business development programs.

Sincerely,

Heriberto Herrera

James C. Sanders
Administrator

OFFICER IN CHARGE
NAVAL FACILITIES ENGINEERING COMMAND CONTRACTS
DAVISVILLE, R.I.

09A61
4330
06 Feb 1984

MEMORANDUM [illegible] OFFICER IN CHARGE

Subj: [illegible]

Place: Wedtech
595 Gerard Avenue
Bronx, New York 10451
Tel. No. 212 993 0500

Date: 2 February 1984

On 2 February 1984 Scheduled From 1000 to 1300

Attendees:

Wedtech Corp.

John Mariotta, Chairman of Board
Fred Newberger, President
Mario E. Moreno, Executive V. P.
Frank DiMango, Technical Director/P.M.
Richard Bluestine, Senior V.P.
V. J. Nair, Plant Manager
Edward McCarthy, Manager Contracts
L. C. McClorey, Marine Engineer
Minn Soimmy, Supervisor Prod. Test. Eng.
J. O. Elevado Jr.
Anthony Guariglia, Chief Financial Officer
B. A. Rose, Assistant Progress Mgr.

Wedtech Corp. outside support

Stephen Denlinger	LAMA Washington, D.C.
Kevin Stone	J. J. Henry
Roy Denashy	J. J. Henry

Government

Naval Facilities Engineering Command

Capt. David C. de Vico	(202) 325-8535
LCDR John L. Sullivan Jr	(202) 325-8534
Clifton Stevens	(202) 325-8533

[illegible]

[illegible]

03-[illegible]
4330
06 February 1984

CESO Port Hueneme, CA

[illegible] Castro (805) 982-3381

U.S. Naval Facilities Engineering Command, Davisville

William E. Paul (401) 267-2548
[illegible] T. Craffey (401) 267-2548

1. Government Meeting

Capt. de Vicq provided a briefing to Government Team outlining objectives. Namely, a "look see" at contractor's facilities and projected facilities to accomplish the proposed contract. Points stressed were the data matrix and tight delivery schedule.

2. Government/Contractor Meeting

Government team was introduced to contractor's group and their function/expertise identified. Capt. de Vicq then briefed contractor on proposed contract and stressed size of units to be delivered; the data matrix to control quality, etc.; and the delivery schedule. The purpose of visit was restated to contractor.

Mr. John Mariotta "COB" introduced his staff and provided usual amenities. A stock offering brochure/folder was made available to all for the purpose of providing general information on the company. Individual technical discussion ensued mostly concerning size of causeway sections, data matrix, facilities, equipment and technical support Wedtech intended to acquire to complete proposed contract.

3. Tour of Contractor's Plant

a. Production Area (595 Gerard Ave)

Area was committed to machine shop and small assembly type-operation. Type of machine tools in use was current and equivalent to a first class machine shop. Work in process material and sub assemblies was sufficient to support number of production workers observed.

b. Inspection/Quality Control

One office was identified with approximately 5 people on site. Equipment evident was sufficient. Record form was evident, however, application criteria was handwritten in pencil for each application. Referenced plans were piled in corner and did not look as if they were controlled.

c. Contract Administration

Office not visited, however talked to two members of staff and seemed knowledgeable.

d. Engineering

General observation is that there was sufficient engineering staff available or it was available by sub contracting to review Government drawing and produce [illegible]

[illegible]
[illegible]
06 February 1984

e. Drafting/Plan Checkers/Material Take Off

Contractor had equipment to electronically read and expand details of any plan via CRT and printing same. Observed 3 plan checkers and 3 persons operating the equipment.

f. Purchasing

[illegible] historical data [illegible] Asked did they have [illegible] subcontractors? Contractor [illegible] with receiving was [illegible]

[illegible]

[illegible] were evident and sufficient to identify [illegible] form, fit and function.

4. Tour of Contractor's Proposed Facilities

a. Contractor provided transportation to his 149th Street facilities listed on his brochure as 215,000 sq. ft. This facility was recently acquired and is just a shell of a building. Roof is not finished, no facilities inside, such as heat, light or sanitary fixtures. Electrical service for the building will be provided by 3 diesel generators to produce approximately .5 m.w.. Building is not designed for overhead crane service, and painting of pontoons is planned to be acccomplished under a bubble outside. Floor to ceiling height is 35'.

b. A walk-through tour was requested as to how contractor was to move pontoons to waterfront area to assemble causeway sections. Contractor proceeded to lead party over railroad track, along a road owned by a trucking company, then onto a private junk area to look at 35,000 sq. ft. of waterfront property owned by Wedtech. Contractor's plan is to negotiate right of way and install a concrete pad upon which causeways will be assembled. Unit then will be moved into water by floating crane. ? mobile crane ?

5. Exit Meeting

a. Capt. de Vicq and John Mariotta, Chairman of the Board, met and discussed visit.

6. [illegible]

[illegible] that [illegible] agreed [illegible]

09461
4330
06 February 1984

7. Observations

Affirmative

a. When contractor takes on a job he seems to go first class. Evident by new machinery and condition of plant facilities and statement that he planned some robotics for new facility.

b. Good communication between management and employees. Has an apprenticeship program in place.

c. Evident in Securities and Exchange Commission Form 10-Q dated 30 Sep 1983 is current assets in the amount of approximately $10,000,000. (cash, cd and TN)

d. Wedtech was proceeding with completion of their 149th St. building prior to knowledge of subject proposed procurement.

Negative

a. Reference Stock Offer Brochure

(1) First major Government contract 6 million (8A) with 3 million for startup provided by SBA.

(2) Major contract to date 6 HP engines, contract price 30.7 million for 13,100 units. Discussions with Wedtech's engineer indicated a cost of approximately $1200 per unit, however commercial market for a 6 HP engine would only support a price of $500 - 600 range. Computation of Government price is $2,351 each. ~~[illegible]~~ Relevant.

(3) Accounts Receivable - Government 13 million, Commercial 84 thousand.

8. Conclusion

a. Contractor can technically and physically do the job. However, he cannot meet the schedule.

Items controlling Wedtech's ability to perform within schedule:

Facility availability lead time

Complete Building	*° 90 days
Install OED Generators	90 days
Set up production line	30 days
Trial for production line	15 days
Negotiate Right of Way	30 days

Employees (re-assign and new hires)

Administration	15 days
Inspection	15 days
Production	15 days
Welders (to include certification)	30 days
	*° [illegible] days

4330
06 February 1984

Negotiate Contract

Government Estimated Price		° 30 days
Contractor's Technical Proposal		° 20 days
Government Evaluation		° 20 days
Contractor's Pricing Including subcontracting		° 30 days
DCASMA Technical		° 15 days
DCAA Audit		° 30 days
DCASMA Price Analysis		° 15 days
OIC Negotiations	Review 10 days Neg. 15 days Award 5 days	° 30 days
DCASMA Pre-Award Survey		20 days

Letter Contract

Government Estimated Price	* 30 days
Contractor's Technical Proposal	* 20 days
Government Evaluation of Technical Proposal	* 20 days
OIC Letter Contract (Not to exceed)	* 5 days

Short Critical Path * to start of production 175 days. The 175 days should be qualified that Wedtech is proceeding to complete 149th Street facility for some other planned use and Government has started to develop estimate. Normal Critical Path to start of production "°" 270 days.

?

J T Craffey
J. T. CRAFFEY, Supv. Contract Spec.

PCO Note: Foregoing timetable does not take into account requirements for legal review & business clearance.

DOIC

DEPARTMENT OF THE NAVY
OFFICE OF THE ASSISTANT SECRETARY
(SHIPBUILDING AND LOGISTICS)
WASHINGTON, D.C. 20360

FEB 9 1984

The Honorable James Sanders
Administrator
Small Business Administration
Washington, DC 20416

Dear Mr. Sanders:

As you are aware, the Naval Facilities Engineering Command (NAVFAC) delivered the causeway acquisition requirements package to your office on January 23rd and subsequently provided a detailed briefing to your senior staff. I have learned that last week elements of the NAVFAC acquisition management team made courtesy visits to the facilities of two of the 8(a) firms that were nominated in your acceptance letter of January 30, 1984.

This is to advise that SBA must provide a technical proposal by COB, 22 February and a cost proposal not later than COB 26 February 1984. The 8(a) company(ies) that is to be involved can communicate with NAVFAC directly for any additional information that may be needed. Your attention and that of the 8(a) company(ies) that is to be involved are directed to specificity of the Command's transmittal memorandum of January 23rd, which accompanied the solicitation documents. The operational needs of the Navy for these systems are critical. Had the program gone forward as a competitive procurement, the Command had planned for less than 30 days for industry to review and bid.

SBA's continuous oversight of this program is an essential aspect of this undertaking. Your personal attention is appreciated.

Sincerely,

Everett Pyatt

EVERETT PYATT
PRINCIPAL DEPUTY
ASSISTANT SECRETARY OF THE NAVY
(SHIPBUILDING AND LOGISTICS)

PC3P/JJS/0506r
16 Feb 84

MEMORANDUM FOR FY 84 PROCUREMENT FILE

Subj: Foncon w/ CAPT Green EA to Mr. Pyatt on 16 Feb 84

1. Received subj foncon at 1710 this date concerning an inquirery from Mr. Nosinger (Spelling ?), President's Political Advisor, relative to the delivery date of the technical proposal from WEDTECH. The question was to requesting a delay in the 22 Feb 84 date due to "changes" forth coming to the procurement package. I informed Capt Green that the changes primarily consisted of the following:

a. boiler plate chages to reflect a negotiated procurement vice competitive IFB.

b. the addition of GFE, ie 20 pumps & engines.

2. Capt Green asked if this was reason enough to request a few day delay in the submission of the tech proposal. I said no. The modifications would not adversly affect the tech proposal and that every day delay granted at this stage would have a ripple effect in the dates for negotiation, product delivery etc. I also reminded Capt Green that the 1st MPS sailing date, mid Nov 84, could not be slipped and that the initial hardware from this procurement was destined for the 1st MPS. I also said that the dates were set by his boss and that any request for delay should properly come from SBA.

3. Capt Green stated that there was ameeting going on next door that would resolve the issue. He said that he would call back Friday 17 Feb with the outcome or further questions.

John J. Sullivan. Jr.
Planning, Programming and Budgeting Officer
Sealift Support Facilities Program

DEPARTMENT OF THE NAVY
NAVAL FACILITIES ENGINEERING COMMAND
200 STOVALL STREET
ALEXANDRIA VA 22332

IN REPLY REFER TO
15 March 1984

MEMORANDUM FOR THE PRINCIPLE DEPUTY ASSISTANT SECRETARY OF THE NAVY
SHIPBUILDING AND LOGISTICS

Subj: FY 1984 Procurement of Amphibious Support Equipment

During our 9 January meeting we discussed the timing of key events in obtaining a Section 8 (a) contract for the FY 1984 procurement of Amphibious Support Equipment, specifically causeways. You transmitted the Technical Proposal and Price Proposal due dates to SBA based on those discussions. SBA met the 22 February date for technical proposal but, on 2 March, advised us in writing that Medley Tool and Model Company would be excluded by amendment to that proposal. Medley constituted about one third of the written proposal. Wedtech advises that they will accomplish the Medley portion by adding a third shift in Wedtech facilities outlined in the original proposal. A detailed re-write of affected sections of the technical proposal has not been received. Discussions with SBA/Wedtech lead us to believe that the technical proposal can be amended successfully and hence we did not seek to terminate our technical discussions.

A $35,988,476.08 Price Proposal dated March 2nd, without Medley participation, was delivered in timely fashion but did not contain the detailed cost breakdown required by Defense Acquisition Regulations for subsequent audit and use in negotiations. On 3 March, to assist the proposers in understanding our position, and at SBA request, we provided SBA with the Government Fair Market Price (FMP). The FMP is $24,234,807 for the work and is broken to Line Item level. Our FMP is based on current contracts supported by FY 83 and prior OPN appropriations adjusted for inflation, size and schedule differences. The contracts cover all hardware deliverables with the exception of Causeway Sections, Powered (CSP), whose FMP was figured by deducting those items which constitute the difference between Side Loadable Warping Tugs now under construction, and CSP. Further, we have proceeded, as planned, to contract for the first twenty diesel engines and water jet pumps required for the first 10 CSP and therefor have most current market prices thereon.

By 5 March, SBA indicated general acceptance of our FMP but their contractor, Wedtech, did not. Time was taken to assist SBA/Wedtech to understanding FMP content and rationale. On 13 March we received a bottom line revision to the Price Proposal, reducing it to $33,279,684 and were therefor looking at a difference of $9+M. We advised SBA/Wedtech that such a difference would not likely be resolvable by negotiation. At noon on 14 March we received a second bottom line revision, verbally from Mr. Romain of the SBA's New York Region, resulting in a $30,500,000 proposal, still some $6.3M (26%) beyond our FMP. Mr. Romain stated that all profit had been reduced to 1% but that the price buildup remained unchanged. We note that a virtually profitless venture seldom stimulates application of the best managerial and journeyman resources when conflicting needs occur. We received written confirmation of this latest proposal on Thursday 15 March.

5 March 1984

Subj: FY 1984 Procurement of Amphibious Support Equipment

Price Proposal backup data, though limited, shows a $4.1 million Capital Equipment investment requirement. In a 14 March letter to Mr. Romain, Wedtech identified about $0.5 million which they consider as Business Development Expenses (amortization for $3.3M of capital equipment over 15 months) reflected in their proposal. When queried on 15 March, Mr. Romain stated that Wedtech's identification was inappropriate and that no Business Development Expenses have been identified. Additional and more detailed comments on both the proposer's pricing and Navy program options are at Attachment 1.

We are now beyond the 9 March date in our timeplan when a decision to proceed to audit of the proposal and final negotiations or to terminate consideration must be made. We believe that the exchange of proposal and FMP, and associated dialog to date, constitute an adequate good faith effort during which it has become apparent that negotiations alone cannot bridge the difference between Navy and the proposer's cost estimates. Absent an entirely new and less costly technical approach or a significant allocation of Business Development assistance from SBA, prompt termination of the Section 8 (a) consideration seems necessary to preserve any opportunity to meet delivery dates required to support the MPS. However, to assure that all possible effort has been undertaken by Navy, we recommend that you telephone or visit the Administrator of SBA directly, apprise him of our situation and suggest his immediate intervention to increase Business Development funding to the limit of his authority. Failing that, we request your concurrance to terminate our dialogue with SBA at the close of business on Friday 16 March and to commence earliest possible advertisement of an unrestricted Invitation for Bid for the FY 84 program. It should be noted that Wedtech could respond to the unrestricted solicitation.

R. A. Lowery

R. A. LOWERY
Captain, CEC, USN
Deputy Commander for Facilities
Acquisition

ADDITIONAL COMMENTS ON PRICE AND PROGRAM OPTIONS

In addition to new equipment requirements, the technical proposal reflects Wedtech planning for:

- Major interior construction and alterations to a truck transfer and storage building which they intend to use for all manufacturing in support of our program. The building, when viewed on our courtesy visit to South Bronx, had no utility connections, no cranage, no installed manufacturing equipment of any sort, and no interior sub-divisions: it had never been completed or discernably used for any purpose.

- Provision of railwork, rail crossings, and truck access pavement leading from the proposed manufacturing plant to undeveloped riverfront property.

- Construction of a hardstand and associated works for riverfront final assembly of lighterage.

While we believe it possible for such planning to be executed, we also believe that the costs thus occasioned are a primary reason for the difference between our FMP and the proposal now before us. We seriously doubt that negotiations could lead to any significant reduction in such cost estimates. Further, we believe that a combination of the time required to obtain and erect required new equipment and facilities and the plan to work three shifts, eliminate any flexibility in an already heavily compressed delivery schedule. The schedule Wedtech would commit to achieve, caviated by the assumption of a 27 March award and on schedule receipt of Government Furnished Engines and Pumps, could support MPS-1 if lighterage loadout is delayed to immediately before the first three ships are scheduled to sail in company. We carefully reviewed most current MPS ship availability schedules and loading plans during our analysis. We conclude that on time delivery is a marginal expectation.

Aside from facility and equipment considerations, Wedtech proposes to hire Advanced Marine Enterprises (AME), as a subcontractor to produce all or most of the data deliverables and Integrated Logistic System (ILS) support required by our specifications. This "software" portion of their proposal exceeds our estimated FMP by some $2M, or by roughly a factor of two. We believe the AME perception of the cost entailed in the level of data we require to be excessive. We note that the proposers did not make use of the technical library, supporting our data requirements, specifically assembled for them. Also, a significant portion of that proposed cost derives from multiple layered General and Administrative expenses (G&A) which quite legally pertain to a commercial Prime/Sub Contractor relationship. However, we had been led to believe that SBA had earmarked funds for the AME support and would propose SBA as "prime contractor" with AME and Wedtech as a second tier: which would have reduced the cost to our program and also obviated any layered G&A.

We have also examined Navy program requirements to see if scope can be cut as a basis for price reduction during negotiations. Such reductions are seldom made when providing a particular suite of equipment for a specific operational unit, as is our case. Hypothetically, if we reduced all quantities to 1 each, the high start up costs for plant and equipment would remain as well as all but marginal printing costs for data requirements. We also looked at

Attachment

deferring items least essential to sail the first three ships of MPS-1 and found that even if all twelve non-powered Causeway Sections plus one of the fifteen CSP were eliminated, we still could not expect to come within $4M of the appropriately adjusted FMP. Further, we do not have either the time or funding availability in future programs to "buy back" deferred items at a later date. Finally, we have examined other elements of the Stategic Sealift Program in search of potential re-programming options and have found insufficient potential relief for the situation at hand.

Attachment

MEMORANDUM

19 Mar 84

From: PC3

To: Distribution

Subj: FY 84 Causeway Procurement, Meeting Concerning

Ref: (a) FAC 09A Memorandum for PDASN(S&L) dated 15 March, 1984

1. Reference (a) recapped the delivery of Technical and Price proposals from WEDTECH for the FY 84 Causeway procurement, provision of the Fair Market Price by PCO to SBA, subsequent dialogue, and pertinent observations of the Procurement Manager, PC3. The memorandum concluded with a recommendation that the PDASN(S&L) contact SBA to urge their intervention to obtain a significantly reduced price proposal or to provide financial support or, that failing, that the PDASN authorize termination of discussion and immediate issuance of an IFB for subject procurement.

2. In response, PDASN(S&L) requested that Mr. Ramirez immediately call and chair a meeting of the parties involved to discuss subject procurement. The meeting was held at 1415 on Friday, 16 March, in the PDASN conference room, Crystal Plaza 5, room 266. Attendees included Mr. Ramirez (Dir SADBO), Mr. Volkman (Acq & Ctr Policy, OASN), Mr. Saldivar (SBA Washington), Mr. Romain (SBA New York Region), Mr. Timperly (FAC 021X), CAPT. de Vicq (PC3), about eight personnel from WEDTECH led by Mr. Mario E. Moreno, and five personnel from Advanced Marine Enterprises, led by Mr. Simon Glatz (CEO) and Mr. Otto P. Jons (VP Eng).

3. Government attendees arrived before the proposers or Mr. Romain and briefly discussed progress to date. In this discussion, Mr. Saldivar stressed SBA's continued support, He also stated that WEDTECH had previously received substantial assistance from SBA on other work, had recently become a public corporation and had, thereby, gained significant funding. He noted that additional SBA financial support was a somewhat controversial issue within SBA. Later, at the conclusion of the meeting, Mr. Saldivar stated that SBA would not consider funding assistance to WEDTECH until negotiations between the procuring activity and WEDTECH had concluded.

4. Before the proposers joined the meeting, Captain de Vicq discussed the intent of reference (a) and stated that it appeared that the differences in estimates were so large that negotiations alone could not produce an agreement on price within funding limitations.

5. During the meeting the following primary issues emerged:

- The Technical Proposal submitted with Medley participation required detailed amendment to reflect the proposers' decision to exclude Medley.

- The Price Proposal included details on Equipment requirements and costs now stated by WEDTECH as not being charged to the contract: clarification was requested.

- The technical and price proposals left the Government with the understanding that significant costs for plant and facility development were to be charged to the contract. WEDTECH noted that as much as $7M for such requirements would be borne by the company and not charged to the Government: clarification was requested.

- AME felt that the only difference between the "software" portion of the FMP and their proposal was about $1M in Training: detailed identification of scope and costs of AME proposed training was requested.

- SBA (NY) and WEDTECH took exception to the FMP, including inflation factors used, changes in steel prices, and viability of past contracts as a basis for the FMP. They stated that their quotes on steel were higher than the FMP by some half million dollars. PC3 requested such details be displayed in the price proposal. 021X emphasized that the FMP was prepared in accordance with DAR and was not based on either WEDTECH's unique situation or "lowest possible cost".

6. Mr. Ramirez concluded the meeting at about 1645 hours, by requesting that the proposers resubmit both Technical and Price proposals to the PCO (located at Davisville, RI) by the close of business Monday, 19 March 1984. He requested that the Technical Proposal detail the method by which WEDTECH would execute the portion of the contract originally proposed for accomplishment by the Medley Company. He requested that the price proposal be reworked to detail costs "from the bottom up" to match the specificity required of the technical proposal and to clearly contain the details required by DAR for audit and negotiation purposes. He requested the procurement officials to proceed to audit.

DCdeVico

D.C. de Vico

Distribution: FAC 09A, 021X, PC3I, PC3P, 031, 032B, PCO, Mr. Ramirez

U. S. SMALL BUSINESS ADMINISTRATION
WASHINGTON, D.C. 20416

MAR 28 1984

Honorable Everett Pyatt
Assistant Secretary of the Navy
Department of the Navy
Washington, D.C. 20350

Dear Mr. Pyatt:

This is a follow-up to our meeting of March 27, 1984 and the prior negotiations conducted by our respective staffs on Fair Market Price (FMP) for the Causeways. By our letter of March 26, 1984 to Mr. Walter Schroder, PCO, Naval Facilities Engineering Command (copy attached), we took exception to the Navy's methodology in computing the FMP. We remain totally opposed to the use of large business pricing data in establishing a FMP for a proposed 8(a) Program, small business contract.

Nothwithstanding our reservations on the FMP, we were informed by members of your staff you are faced with definite budgetary constraints and therefore your FMP of $24,234,807 is firm.

After intensive discussions with WEDTECH Corp., the proposed 8(a) contractor, SBA is prepared to accept the above FMP subject to the inclusion of options and other contractual modifications as provided on the attached summary.

We will be pleased to meet with you and other members of your staff to finalize this proposed 8(a) contract award. Thank you very much for your support of our small business programs.

Sincerely,

Henry T. Wilfong, Jr.
Associate Administrator
for Minority Small Business

Enclosure

Φ Wed Tech

Wedtech

PROBLEMS

- Facilities
  - no roof, electricity
  - now: still no power (using port Gen's)
- avail of skilled manpower (welding)
  - 112 cars in progress
  - only 17 passed dim test
  - 8 to subcontractor to paint originally intended to do in-house (still do)
- 10 weeks behind schedule
- Hope to get to 112 1-1½ per week

SBA

- Inspection Date: Sept 7 prior to Oct 7 deadline

Mr. Rogers (Navy Dept) Aubrey Rogers

- So: Portion of ~~[illegible]~~ & ~~[illegible]~~ second 8a

MEMORANDUM FOR MR. ARNY

Subj: UPDATE ON POWERED CAUSEWAYS - WEDTECH

Per your request the following information is provided on the subject procurement.

Wedtech is experiencing problems in the following areas:

- Can the original 9 weeks in schedule slippage be made up?
- First ship delivery - cannot meet.
- Some subcontractor rework required.
- Waterfront yard in process.
- Construction plant is in disarray.
- Material handling problem.

The above items add up to schedule slippage on contractor's part.

The U.S. Navy is also contributing to schedule delays. Of the two items of GFE the diesel engines have been delivered, no problem. However, the pump manufacturer has run into problems which is effecting the delivery schedule. Since this pump is required during the integration in the production process there is no working around it. This one item could cause the production of each unit to stop at the same point of work in process. The pump problem will have a firm assessment by 14 September, with a projection during the briefing on Thursday, 13 September.

Options Available to U.S. Navy

A. Contrary to original input by the contracting officer the 13th of September is not a firm contract date for exercising an option. This was a target date to begin negotiations with the contractor. However, the audit reports are not complete and this date will slip.

B. September 13th does not have to be an all or nothing decision date with regards to contract option.

This does seem to lead toward 2 possible courses of action.

- o If contractor improves during the next 2-3 weeks on production and other problem areas and can manage the program - commit the option quantity to Wedtech. Also, GFE situation must improve to accommodate the schedule.

or

- o If contractor improves but is judged to be capable of only limited production bring other supplies on-line.

C. Since I have limited data available to me to project other courses of action, the 0900 briefing on 13 September to Mr. Pyatt seems to be the key. However, Captain Dave De Vicq who was in charge of the on-site team at Wedtech on 7 September has requested a one-on-one with you for 30 minutes. This meeting is on your schedule at 1330, Wednesday, 12 September.

In my opinion we need to hear the results of the 7 September review and the one Captain Piersall is conducting this week before a rational projection can be formulated.

Very respectfully,

W. C. KRIEG

DEPARTMENT OF THE NAVY
OFFICE OF THE ASSISTANT SECRETARY
(SHIPBUILDING AND LOGISTICS)
WASHINGTON, D.C. 20360

September 10, 1984

MEMORANDUM FOR THE VICE CHIEF OF NAVAL MATERIAL

Subj: SEALIFT SUPPORT PROGRAMS

On August 27 I attended a briefing with representatives from the Small Business Administration OASN(S&L), NAVSEA, and NAVFAC Engineering Command to discuss three issues involving on-going Sealift Support programs - Sea Sheds, Flat Racks, and powered causeways. The programs involving the Sea Sheds and Flat Racks appeared to be on track, and everyone involved seemed satisfied with progress to date.

The review of our program to build powered causeways, however, raised more questions than it answered. Moreover, the agencies involved disagreed on some significant points - eg. status of delivery of GFE, projected production capability, and they appeared to be no closer to resolving them after the review.

This procurement is important not only because of our need for off-loading capability for our sealift forces, but also because we must meet a very demanding deployment schedule for our Maritime Prepositioning Forces.

Consequently, in view of the importance we attach to this program, the nature of this procurement, and the role assigned to Commander, Naval Sea Systems Command (PMS-377) to provide technical coordination and management support to the Strategic Sealift Program, I request that PMS-377 provide me a thorough assessment of the entire powered causeway program. I will need a report before September 28, 1984.

L. WAYNE ARNY, III
PRINCIPAL DEPUTY
ASSISTANT SECRETARY OF THE NAVY
(SHIPBUILDING AND LOGISTICS)

Copy to:
NAVFAC 03, CAPT DeVicq
NAVSEA, PMS-377

9/17

Ew,

This is Charlie Piersol's initial look. Details will follow.

CA

~~Cooper~~ Freeman

Call Piersol & [illegible]

see what he thinks — fix these issues

DEPARTMENT OF THE NAVY
NAVAL SEA SYSTEMS COMMAND
WASHINGTON D C 20362

IN REPLY REFER TO
17 SEP 1984

MEMORANDUM FOR THE PRINCIPAL DEPUTY ASSISTANT SECRETARY OF THE NAVY (SHIPBUILDING AND LOGISTICS)

Subj: POWERED CAUSEWAY PROCUREMENT QUICK LOOK

This memorandum provides a quick look at the procurement of powered causeways to support the Maritime Prepositioning Ships. The current procurement should be able to support the deployment of the Maritime Prepositioning Ships.

I visited NAVFAC, OIC Davisville, DCASMA New York, and WEDTECH Inc. The production facilities, material and workforce will be sufficient to complete the first ten powered causeways, if the remaining Government furnished propulsion pumps are delivered. The Government furnished pumps are late, and could become the pacing item.

There are two risks to successful completion of these powered causeways. First, the lack of a clear understanding as to the inspection requirements in the contract, second, a misunderstanding by WEDTECH of it's responsibility for the performance of Government furnished equipment.

DCASMA and WEDTECH disagree as to the inspection requirements. WEDTECH's position is that every module requires inspection. The contract and DCASMA state that the Government will sample lots, but not inspect every module. This should be resolved by clear written correspondence, by DCASMA to eliminate any misunderstanding. This will eliminate a present administrative bottleneck that could impact production.

WEDTECH identified the only risk to completion of the first powered causeway as resolution of their responsibility, should the first article test fail due to failure of the Government furnished propulsion pumps. They are not proceeding with installation of the pumps received pending this resolution. Specifically, WEDTECH wants test data on each pump prior to installation. The Procuring Contracting Officer has certified by letter that "The Government-furnished pumps meet the criteria for inclusion into the CSPs". WEDTECH still will not proceed without written clear language that they will be "held harmless" or direction to install the pumps. The Contracting Officer should provide a clear "plain English" interpretation of the Government furnished property clause to remove this obsta[illegible]

MEMORANDUM FOR THE PRINCIPAL DEPUTY ASSISTANT SECRETARY OF THE NAVY (SHIPBUILDING AND LOGISTICS)

WEDTECH has committed to having the first powered causeway complete by 28 September if these issues can be resolved quickly. This will demonstrate their capability to complete causeways and will alleviate most remaining concerns. They should then be able to complete powered causeways to a schedule slightly behind the contract schedule, but one that will support the Maritime Prepositioning Ships.

I will provide a complete report on 28 September.

Very respectfully,
Charlie Piersall

C. H. PIERSALL, JR.

Ed J 10/2 $(KEDTECH'01)

Here is Charlie's report to me on his "quick look." His bottom line: Unitech can produce the canisters (i.e. options) on time. The pacing item is can NFE pumps. He found several problems involving all parties; most involved lack of communication. He commented that if nothing else my memo to VCNM getting this off got everyone moving.

He is preparing a memo for me to VCNM that will forward [illegible] this report and ask for follow-up on the recommendations (p. 16). I'd [illegible] worried now about [illegible] how NAVFAC is affecting his other [illegible] programs!

JTR

DEPARTMENT OF THE NAVY
NAVAL SEA SYSTEMS COMMAND
WASHINGTON DC 20362

IN REPLY REFER TO
7043
Ser PMS-377/0283
28 September 1984

MEMORANDUM FOR THE PRINCIPAL DEPUTY ASSISTANT SECRETARY OF THE NAVY
(SHIPBUILDING AND LOGISTICS)

Subj: POWERED CAUSEWAY PROCUREMENT ASSESSMENT

1. As promised in my quick look report of 17 September 1984, the enclosed report assesses the NAVFAC powered causeway procurement.

2. A number of significant actions have been taken as a result of the quick look. Delivery of the Government-furnished waterjet pumps is clearly the pacing item. The PCO has been unable to improve pump deliveries from Ward Machinery and has proposed revised schedules for CSP deliveries from Wedtech which will still meet the MPS requirements. Inspection requirements during CSP production have been resolved by DCASMA New York. The PCO has resolved the Wedtech concerns for their liability for the performance of the Government-furnished pumps.

3. Conversations with DCASMA, Wedtech and the PCO as recently as 27 September indicate that first article test will be completed next week with delivery of the first CSP by 15 October. This critical milestone will demonstrate Wedtechs capability.

4. There is little room for slack, but it appears that Wedtech can deliver 10 CSPs to support deployment of the first MPS squadron if the Government-furnished pumps are delivered to the new schedules. My report also includes a number of recommendations to improve production and deliveries over the long haul.

C. H. PIERSALL JR
Manager, Amphibious Warfare
and Strategic Sealift Program

Copy to:
VCNM

POWERED CAUSEWAY ASSESSMENT REPORT

28 SEPTEMBER 1984

PREPARED FOR THE PRINCIPAL DEPUTY ASSISTANT SECRETARY OF THE NAVY
(SHIPBUILDING AND LOGISTICS)

BY

CAPTAIN C. H. PIERSALL JR, U.S. NAVY
AMPHIBIOUS WARFARE AND STRATEGIC SEALIFT PROGRAM
NAVAL SEA SYSTEMS COMMAND

Executive Summary

In accordance with a 10 September 1984 ASN (S&L) Memorandum for the Vice Chief of Naval Material, this report provides an assessment by PMS-377 of the powered causeway program.

Wedtech Corporation is under contract through the Small Business Administration (SBA) to the Naval Facilities Engineering Command (NAVFAC) for Sealift Support Systems for the Strategic Sealift Program. This includes Causeway Sections, Powered (CSPs). The first ten CSPs to be delivered by Wedtech are required for outfitting the first three ships of the initial Maritime Prepositioning Ship (MPS) Squadron in November-December 1984. In order to meet this operational requirement, the initial ten CSPs are "build to print" using Government-furnished waterjet pumps. Delivery of the Government-furnished pumps has become the pacing item. Pump deliveries are late and will not support the original contract schedule for delivery of the first ten CSPs. However, the PCO has proposed to Wedtech revised CSP schedules based on current estimates of pump deliveries. These schedules, if achieved, will support deployment of the first MPS squadron.

A team chaired by Captain Charles H. Piersall, Jr., USN, visited Naval Facilities Engineering Command (NAVFAC); Officer in Charge (OIC) Naval Facilities Engineering Command Contracts, Davisville, RI; Defense Contract Administration Services Management Area (DCASMA) New York; and Wedtech Corp., Bronx, N.Y. 10-13 September 1984. The team submitted a Quick Look Report on 17 September 1984. A mumber of significant actions have been taken since submission of that report.

The two additional risks identified in the Quick Look (lack of a clear understanding as to the inspection requirements in the contract, and a misunderstanding by Wedtech of its responsibility for the performance of Government-furnished equipment) have been resolved.

The production facilities, material and workforce are sufficient to complete the first ten powered causeways to support the deployment of the Maritime Prepositioning Ships.

Background

- A CSP is an assembly of pontoons and a Waterjet Propulsion Assembly (WPA) used to ferry dry cargo from ship-to-shore, through the surf zone to the beach, if required, and to move or position pontoon sections to create causeways or pier facilities. The pontoon section consists of 33 modules arranged 3 units wide and 11 units long as follows:

  - 24 P1 modules (the basic 5' x 5' x 7' steel pontoon)
  - 6 P1M (modified P1) modules
  - 3 P8 modules (the sloped bow)

The WPA is connected aft of the P1M modules and consists of three modules: port, starboard and center. The port and starboard modules contain propulsion units; each includes a diesel engine, waterjet pump with rotable nozzle for steering, electrical and hydraulic systems, and a fire suppression system.

The center module contains a fuel tank, batteries, anchor housing and accessories. The control station is located forward on the starboard module.

- Powered Causeway Sections required for outfitting the first Maritime Prepositioning Ship (MPS) Squadron are being manufactured by Wedtech Corp. on an SBA contract with NAVFAC through its field contracting office at Davisville, RI.

- Operational Requirements for CSPs:
  Ref COMSC Washington DC 152202Z Aug 84

SHIP	#CSPs	LV NYC	LOAD
MAERSK (CPL HAUGE)	3	29 OCT	12-14 NOV
MAERSK (PFC BAUGH)	3	12 NOV	26-27 NOV
WATERMAN (SGT KOCAK)	4	23 NOV	7-8 DEC

- The original contract schedule required delivery of CSPs 1 through 10 by 29 October 1984. These units are "build to print" using Government-furnished waterjet pumps.

- Contract Administration:

  PCO: OIC Naval Facilities Engineering Command Contracts,
  Davisville, RI.
  ACO: DCASMA New York
  Technical review: Civil Engineering Support Office (CESO), Port
  Hueneme, CA.
  Negotiation Authority and Legal: NAVFAC 02
  Procurement Manager: NAVFAC 03

- The first quarterly progress review on 17 July 84 at Wedtech included Government representatives from DCASMA, CESO Port Hueneme, NAVFAC, SBA, NAVFAC Contracts, Davisville.

- NAVFAC OIC Davisville letter Ser 1711 of 25 July 1984 which forwarded the evaluation of the 17 July review, stated that lack of progress is endangering contract performance and requested within 10 days Wedtech's course of action to insure that the first 10 CSPs would be delivered on-time. The following major concerns were noted:

  - P1 and WPA production
  - Manufacturing facility not fully operational
  - Wedtech at least 6 weeks behind in pontoon production
  - Next two weeks critical in determining whether Wedtech can recover to meet schedule.

- Wedtech's 3 August response included the following:
  - Wedtech has dedicated the entire 149th Street facility to this contract.
  - Consumated a lease for watersite.
  - $4M capital equipment procurement.
  - Recruited a program manager, production supervisor and 8 welders from previous Causeway Section, Non-powered (CSNP) manufacturer.

- Forwarded Milestone Plan as a proposed Recovery Plan but noted that exhaust systems sole source vendor (Kay Industries) could not support schedule.
- Wedtech requested Kay Industry drawings but were told by the Government on 19 July that drawings were proprietary (reversing the Government position at the 17 July quarterly review that Government would be able to furnish them).
- Consequently, Wedtech was "forced to submit" a Recovery Plan which shows delivery of only five CSPs by 6 November.
- Sustained P1 production has commenced; production of P1M and P1-H6 modules will not impact production of P1s; plan to commence WPA production line on 6 August; all work stations in 149th Street facility operational, although portable generators in use until permanent power installed.

• The PCO intervened with Kay Industries to improve deliveries of exhaust systems.

• A monthly progress meeting at Wedtech on 9 August included Government representatives from DCASMA, NAVFAC, SBA and NAVFAC Contracts, Davisville.

- Wedtech was advised that the recovery schedule was not satisfactory.
- The watersite was inspected and much activity was noted at the 149th Street manufacturing facility.

• Wedtech's 10 August letter to PCO advised that Kay Industries might be able to meet schedule for 10 systems through use of overtime.

• SBA NY letter of 15 August requested PCO to expedite response to Wedtech request for deviations/waivers, ECPs and VECP. (Davisville forwarded to NAVFAC PC-3R).

• The PCO provided interim response to SBA NY on 17 August.

• Wedtech's letter of 27 August advised that the delay in furnishing GFE waterjet pumps had impacted the CSP production schedule.

• Wedtech 29 August letter requested information on delivery of pumps from Ward Machinery which were contractually due to be delivered at the rate of two per week commencing 20 July.

• Wedtech 4 September letter to PCO acknowledged receipt of first two pumps and requested test data.

• PCO letter of 5 Septemoer gave schedule for delivery of GFE pumps as 2 each on 8/31, and 3 each by 9/7, 9/14, 9/21, 9/28, 10/5, 10/12.

• PCO letter of 5 Septemoer noted Wedtech's concern for pump performance, but stated that the government furnished pumps meet the criteria for inclusion in the CSPs and that CSP delivery "should not be hindered in any way by non-receipt of test documentation".

- The DCASMA monthly status meeting at Wedtech on 7 September which included representatives from Wedtech, DCASMA, NAVFAC, NAVFAC Contracts, Davisville, SBA (DC and NY) and legal representatives for Wedtech is summarized below:

  - Wedtech advised that they would meet 29 October delivery date for first 10 CSPs.
  - Wedtech requested government source inspection on 24 hour/day basis.
  - Wedtech stated they needed GFE pump certification and "hold harmless" agreement.
  - Wedtech expressed dissatisfaction with turn-around time on requests for waivers.
  - PCO mentioned concern over data items for CLIN 0001, specifically QA Plan, Production Acceptance Test Plan and First Article Inspection Procedures.
  - Tour of 149th Street facility indicated full operation in manufacture of P1s and WPAs. Watersite facility was being set up and P8s being air-tested.

- Wedtech letter of 13 September to PCO acknowledged receipt of performance curves supplied by Peerless Pump to Ward Machinery on the first two GFE pumps. Since the curves contain results of test conducted only on the top bowl and impeller, Wedtech believed the test data was neither satisfactory nor sufficient to indicate the pump's performance capability on a CSP. Wedtech disagreed with NAVFAC's contention that the pump data meets the criteria established for inclusion into the CSP. In fact, Wedtech believed that such data was not what was contemplated to be delivered under the Ward contract and does not make the Government-furnished pumps suitable for their intended use. Wedtech requested amendment of the contract to incorporate clauses which would:

1. Hold Wedtech harmless for any and all damages sustained as a result of a defective pump.

2. Compensate Wedtech for business interruption expenses incurred as a result of pump failure during testing required under the contract.

- PCO letter Ser 2209 of 20 September 1984 forwarded proposed changes to Wedtech and stated that Wedtech is expected to proceed without futher delay in installation of the Government-furnished pumps in the CSPs. The proposed change, applicable only to the first 10 CSPs, deleted static thrust and retraction requirements and decreased requirements for maneuverablility and in-water functional test.

- PCO letter Ser 2210 of 20 September 1984 to Wedtech advised that six Government-furnished pumps had been delivered to Wedtech as of 20 September and proposed a revised schedule of two pumps per week commencing 25 September through 7 November 1984. The PCO further proposed a revised delivery schedule for the first 10 CSPs as follows:

  - CSP 1, 2, 3 on or before 29 October 1984
  - CSP 4, 5, 6 on or before 5 November 1984
  - CSP 7, 8, 9 on or before 26 November 1984
  - CSP 10 on or before 30 November 1984.

- PCO letter Ser 2211 of 20 September to DCASMA, New York stated that Wedtech had advised the PCO that a DCASMA 19 September 1984 letter resolved inspection requirements under the contract.

- In a 26 September telephone conversation with the PCO's office, Mrs. Brubeck advised that the Wedtech Contracts Manager had told her that Wedtech would accept the proposed revision to the CSP delivery schedule, provided that the last pumps can be delivered by 3 November 1984. The Wedtech Contracts Manager further stated that the delivery of the last pumps on 7 November, as proposed by the PCO, would delay delivery of the tenth CSP until 4 December.

- In a 26 September telephone conversation, Wedtech's Executive Vice President advised that the first CSP would complete first article test during the week of 1 October and be delivered by 15 October.

Production Status Assessment

- There is a cadre of CSP production experience at Wedtech obtained from a previous CSPN producer.

- There is work in the module pipeline and the contractor indicates that the first CSP can be assembled and local systems test be completed by 15 October.

- Module requirements to support assembly of each CSP are:

    - 24 P1 modules
    - 6 P1M (modified) modules
    - 3 P8 modules
    - 1 WPA (3 modules - port, starboard, center)

- Status as of 21 September 1984 (modules physically on-site at the waterfront assembly facility):

    - 65 P1 modules complete
    - 1 P1M
    - 6 P8 modules from subcontractor (primed and ready for final paint-out)
    - WPAs - 1 port, 1 starboard painted out, systems installation (hydraulics, piping, electrical) started.

- Requirements to meet delivery of ten CSPs by 30 November 1984 are addressed in the attached charts which show waterfront assembly site requirements to meet the proposed contract delivery schedule.

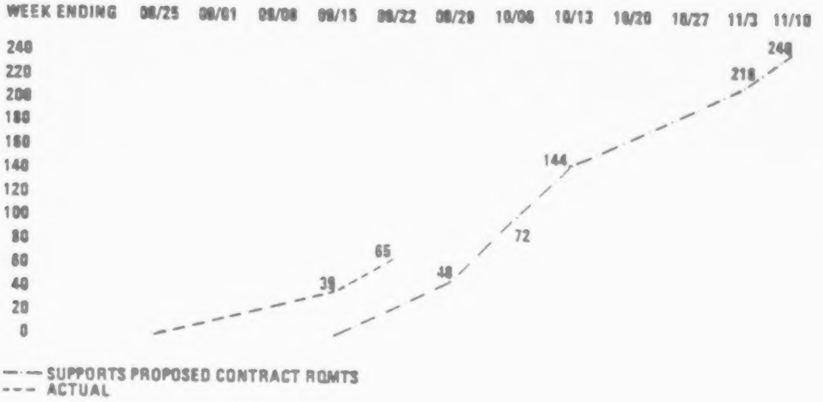
CSP ASSEMBLY SCHEDULE

WEEK ENDING→ CSP	09/08	09/15	09/22	09/29	10/06	10/13	10/20	10/27	11/3	11/10	11/17	11/24	12/1
1						+		x					
2						+		x					
3						+		x					
4							+		x				
5							+		x				
6							+		x				
7										+		x	
8										+		x	
9										+		x	
10											+		x

+ = START CSP ASSY TO MEET PROPOSED CONT. RQMTS.
x = COMPLETE CSP ASSY TO MEET PROPOSED CONT. RQMTS.

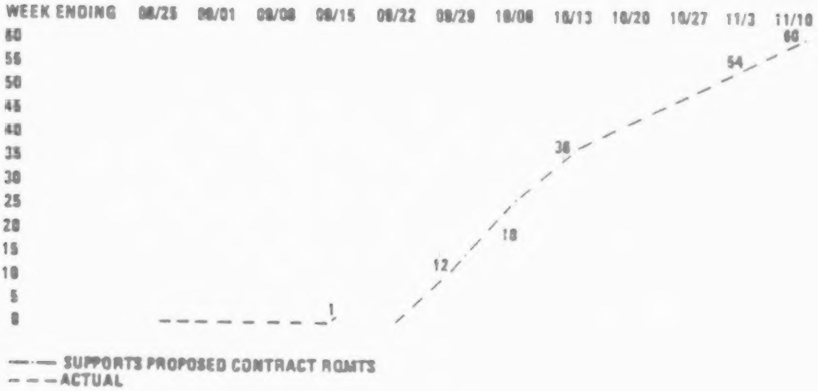
P1 MODULE REQUIREMENTS TO SUPPORT CSP ASSEMBLY SCHEDULE

24 P1 MODULES PER CSP
(ALLOWS ONE WEEK SET-UP TIME AT WATERFRONT SITE)



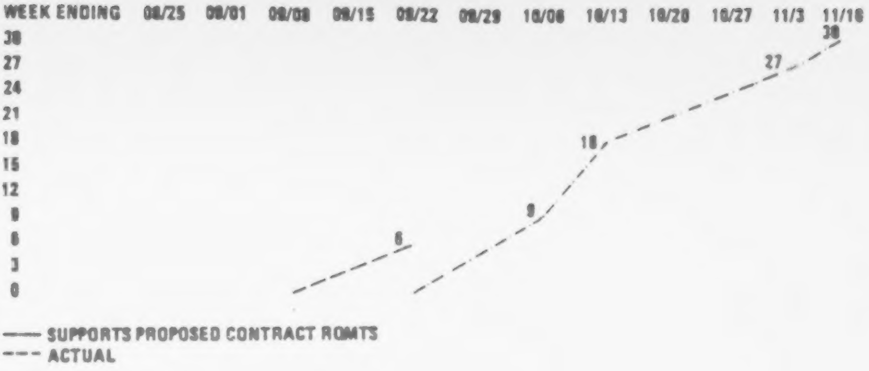
P1M MODULE REQUIREMENTS TO SUPPORT CSP ASSEMBLY SCHEDULE

6 P1M MODULES PER CSP



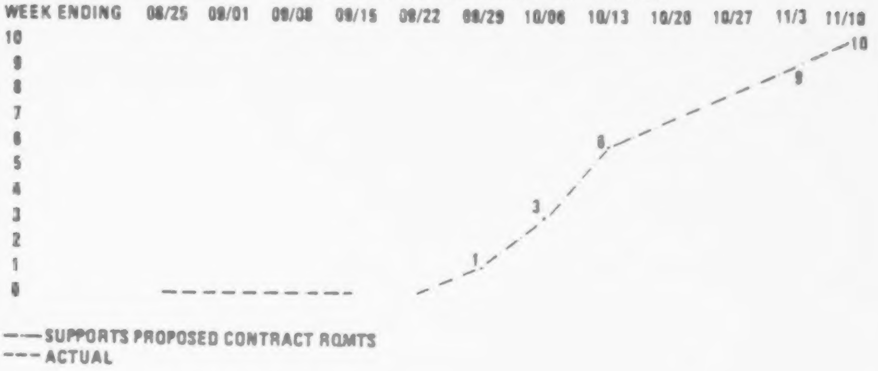
PB MODULE REQUIREMENTS TO SUPPORT CSP ASSEMBLY SCHEDULE

3 PB MODULES PER CSP



WATERJET PROPULSION ASSEMBLY REQUIREMENTS TO SUPPORT CSP ASSEMBLY SCHEDULE

1 WPA, CONSISTING OF 3 MODULES (PORT, STARBOARD, CENTER) PER CSP



- While this contract contains very heavy CDRL requirements, there is no requirement for the contractor to provide a detailed production schedule updated with actual accomplishments on a regular basis. CDRL 0012AA requires a one-time submittal of an overall Program Milestone Schedule with resubmittal only when revised, and CDRL 0012AD requires a Production Plan 45 days after contract award with resubmittal when revised. This plan basically describes how the work is to be accomplished, but not when (schedule). No formal requirement exists for the contractor to regularly provide status based on his production schedule. When status is provided at contractor/Navy meetings, the contractor identifies where he is, but there is no way of identifying where he should be. Due to a lack of contractor developed schedule/status information, NAVFAC has used a schedule prepared by a Government consultant. This schedule does not match the contractor's production procedures or processes. A great deal of confusion could have been avoided had the contract required detailed production schedules as a CDRL deliverable. These schedules should show module fabrication, assembly, blast/paint, outfitting and CSP assembly/test with regular updating of actual status to provide a baseline on which to track progress.

- Quality. The work being performed by Wedtech (hardware) has been assessed by the Government representatives as being of high quality.

- Facilities are basically on-line, adequate production manning was evidenced, and no "hard" production constraints were noted, e.g., material handling, material flow, storage, production space, tools/machinery. The production facility is clean, well maintained and no hazards were noted.

- 15 October is a critical milestone. Not only should the first CSP be complete, but there should be significant movement of completed modules to the waterfront assembly site to support sustained CSP production.

Status of ECPs, RFDs, VECPs

- Wedtech 4 September letter to the PCO raised three issues regarding Requests for Deviation (RFD):

1. Timeliness of Government response noting that the Government did not meet the 30 day deadline for nine RFDs.

2. Propriety of citing MIL-STD-481A as indicating "the contract delivery schedule is one criterion for authorizing a deviation to use alternative materials or processes". Wedtech believed that this criterion is inapplicable.

3. NAVFAC processing of incomplete RFDs. Wedtech questioned "NAVFAC's refusal to provide any inkling of an inadequacy on any RFD until apparently all pending RFDs, complete or incomplete, could be responded to as a group". Wedtech further stated that over "40 days is clearly unreasonable especially in light of the tight delivery schedule".

- PCO letter of 6 September acknowledged the Wedtech 4 September letter and provided comments on RFDS, ECPs, and VECPs. The PCO noted that the first RFD was received on 21 June and approved on 29 June 1984; that the remaining requests "were not presented until 12 July which marked the beginning of a flood of such requests"; that "this trend persists through this date when we have received a total of 55 ECPs, 14 RFDs and 4 VECPs"; and that Wedtech was silent for two-three months after contract award. The PCO further stated that prompt attention to alternate items could have provided a more manageable flow for both the Government and contractor to react.

- At the 7 September DCASMA monthly status meeting, the PCO agreed to a Wedtech suggestion to schedule a meeting with Port Hueneme to settle all outstanding ECPs, RFDs and VECPs. That meeting took place on 13 September and, according to the PCO's office, resolved several issues and provided both sides with an understanding of the other's position.

- At the 12 September meeting at Davisville the NAVSEA (PMS-377) Review Team was given the following status:

ECPs

13 approved on Mod 3; (2 in 20 days, 2 in 23, 1 in 29, 5 in 34, 3 in 47 days)
5 will be approved in subsequent mod
5 disapproved (3 in 21 days, 1 in 29 days, 1 in 49 days)
13 require additional info from Wedtech (Wedtech responded to 4 on 8/30)
19 being reviewed by Government
55 Total

RFDs

7 disapproved (1 in 29 days, 6 in 39 days)
4 approved (1 in 8 days, 1 in 29 days, 2 in 22 days)
1 partially approved (44 days)
1 conditionally approved (39 days)
1 approval deferred (39 days)
14 Total

VECPs

2 approved (45 days)
2 conditionally approved (45 days)
4 Total

- At the 13 September meeting with the NAVSEA Review Team, Wedtech stated that they had no software problems that would impact production.

Issues

- Management Chain Needs Streamlining
  - Poor communications were evident among the many agencies involved.
  - The PCO wants to maintain control of the contract while the ACO wants more authority delegated to him, including approval of Class I ECPs.
  - Resolution of OIC Davisville comments of 19 May 1983 on Acquisition Plan SSFP-83-0001 re PCO/ACO roles.
  - Technical responsibility is divided between Davisville, CESO Port Hueneme and NAVFAC HQ.

  - Government technical/management assistance on-site.
  - Lack of de facto formal configuration management.
  - Use of independently prepared schedules (NAVFAC consultant) to monitor Wedtech progress.
  - SBA direction to use AME as subcontractor.

- Data Requirements

  - The CDRL requirements are very extensive.
  - AME, a directed subcontractor by SBA, is preparing data under subcontract from Wedtech. Wedtech is not pleased with AME work.
  - Contract invokes MIL-Q-9858A.
  - Wedtech is prone to deliver data to SBA rather than to the ACO.

- Change Control

  - Contract requires concurrent submission of ECPs, VECPs and requests for deviations/waivers to PCO, CESO Port Hueneme and DCASMA.
  - A number of incomplete packages have been submitted by Wedtech.
  - Formal change control board is not working.
  - Timely responses should be provided by the Government.

- Government Furnished Equipment

  - Late delivery of Government-furnished pumps from Ward Machinery has hindered Wedtech's ability to deliver the first 10 CSPs.
  - Test requirements for waterjet pumps need clarification since Wedtech has responsibility for procurement of pumps as CFE after first twenty GFE units.

Conclusions

- Wedtech has the resources necessary to meet the Navy's operational requirements for CSPs including the option quantities.

Recommendations

- Navy should clarify Program Control responsibility.

- Navy should review and revalidate the Contract Data Requirements List (CDRL).

- Navy should contractually formalize configuration management responsibilities and CCB procedures in accordance with Acquisition Plan SSFP-83-0001.

- Production progress should be monitored against the contractor's milestone schedule.

- Navy should initiate necessary action to obtain level 3 drawings for the exhaust system from Kay Industries.

- Wedtech should insure that complete technical data is submitted with each ECP.

PROJECT MANAGER
AMPHIBIOUS SHIP ACQUISITION PROJECT
NAVAL SEA SYSTEMS COMMAND
WASHINGTON, D.C. 20362

12 October 1984

Dear Wayne,

The schedule proposed by WEDTECH will not support the load-out of lighterage established by MSC. The first ship would have one CSP vice three as planned, the second two vice three, and the third one vice four. Six CSPs would be available by the time the fourth ship loaded out (although only four are planned for that ship). None of the CSPs for the fourth ship were to be from the first ten CSPs. MSC should investigate the load of the fourth ship to determine if it is feasible to increase the number of CSPs that could be carried by redistributing some of it's deck load to the earlier ships.

The validity of WEDTECH's concerns as to the impact on production of dimensional discrepancies cannot be determined without visual assessment. DCASMA or NAVFAC should assess immediately.

I am concerned that WEDTECH appears to be taking an attitude of "My hands are tied and I'm waiting for you to provide the technical solution to the dimensional problem." The WEDTECH allegation that the Government has experience in installing this pump may not be valid. Should WEDTECH wait until the Quarterly Review Conference on 17 October to discover this, another week may be lost. NAVFAC must move on this quickly to preserve even the WEDTECH proposed schedule.

DCASMA and NAVFAC will feel this letter is another "smoke screen" for WEDTECH's problems. It may be to an extent, but if there is any validity to the extent of the problems he portrays he will have an excusable delay. I recommend WEDTECH send this letter. This will surface the problems and lead to resolution.

Very respectfully,
Charlie

0740
10/10/84

Charlie,

Please take a look at the attached letter. It has been signed, but not released.

I am leaving for Norfolk with the tide, so to speak, but I will be back this evening. I would like your comments as soon as you can give them to me. Should the letter be sent; are the pumps this much of a problem; can we afford to ~~allow~~ approve their later schedule?

Thanks,

(212) 292-9310

Wedtech Corp.
595 Gerard Avenue, Bronx, N.Y. 10451 Tel: (212) 993-0500 Telex: NYK 147231

October 9, 1984

Mr. Walter K. Schroder
Deputy Officer in Charge
Naval Facilities Engineering Command Contracts
Naval Construction Battalion Center
Davisville, Rhode Island 02854

Attention: Mrs. Aura Brubeck

Subject: NAVFAC Contract No. N62472-84-C-3116
Revised Delivery Schedule

Dear Mr. Schroder:

Timely performance on the subject Contract, in particular the delivery of the first ten (10) Powered Causeways (CSP's), has been of paramount concern for all involved in the Naval Facilities Engineering Command's (NAVFAC's) Sealift Support Program. The adamantine manner in which the Command has stated that there was no flexibility in the Contract's schedule did not go unheeded.

Your familiarity with the extraordinary measures taken by WEDTECH CORP. concerning this Contract obviates the need to recount how seriously the Company assumed its obligation to meet the original due date of 29 October 1984. There was never a moment when any officer of this Corporation doubted WEDTECH CORP.'s ability to accomplish this task. Certainly, there are only a handful of contractors — big businesses included — who could have achieved the progress on this program as quickly as WEDTECH CORP. has since the Contract's award date six months ago.

Your letter of 20 September 1984 (Ser 2210), indicates that some relief has been received regarding the delivery of the first ten CSP's due to the delay encountered by the Government in obtaining the twenty waterjet propulsion pumps which are Government Furnished Equipment (GFE) on WEDTECH CORP.'s contract. The revised delivery schedule is set forth in the proposed Modification P00006 as follows:

CSP's 1, 2, 3 - 29 October 1984
CSP's 4, 5, 6 - 05 November 1984
CSP's 7, 8, 9 - 26 November 1984
CSP's 10 - 30 November 1984

Regretfully, WEDTECH CORP. cannot accept this proposed revision. The obstacle relates to the pump's installation.

THE PUMP'S INSTALLATION

On all other manufacturing problems which have arisen concerning this

Contract, WEDTECH CORP. has been able to remedy the particular situation by authorizing additional overtime for in-house workers, paying premium prices to a vendor, or retaining the services of a specialized consultant. In the instance at hand, however, the adage, "there is no substitute for experience" prevails. On the three pumps currently in the process of being installed, WEDTECH CORP. has been forced to utilize a great deal more manhours than anticipated. Each pump, regardless of how slight the dimensional discrepancies, presents a unique set of circumstances which must be carefully addressed if the pump is going to function as required and pass interchangeability tests.

Specifically, the dimensional variations appear in the pump inlet housing and the shaft centerline relationsip to the body of the pump assembly. The inlet housings exhibit variations in flatness in relation to the plane of the hull bottom in both fore and aft locations as well as on the diagonals of that portion which must be located on the opening of the hull to position it for welding. This deviation causes large gaps to be present when the support angles of the pump, located at the forward and aft ends of the pump, come into contact with the hull surface. This deviation requires the bottom plate to be reworked to raise or lower the contact surface to accommodate the pump.

Compounding this problem is the variation of the pump shaft centerline which must be located on the hull centerline. This deviation requires the pump assembly be shifted sideways to place the shaft on center causing the hull opening to be recut along its sides. Consequently, welding, made all the more difficult by these changes, must progress slowly to keep any distortion within acceptable limits. This is absolutely mandatory to maintain bearing clearances in the pump. The pump's inlet housing distorts under stress and causes the forward and rear bearing clearances to change radically unless the welding sequence and the location being welded is carefully chosen.

In addition to the above problem, the location of the aft elbow flange must be maintained to permit the fitting of the nozzle support plate. This plate must be positioned to support the aft end of the pump. Furthermore, this nozzle support plate must also remain flat while it is being welded to the hull since a watertight joint must be made using thin, flexible gasket material and bolts through the pump flange and plate. Again, this must be accomplished without distorting the pump bearings.

DELIVERY SCHEDULE IMPACT

At this point, WEDTECH CORP.'s approach is not to contest the suitability of the Government Furnished Equipment (GFE) citing contractual clauses. Rather, the Company believes it can complete its task in an expeditious and efficient manner by working closely with the Government and by benefiting from the Government's experience with this pump's installation on an earlier contract. For example, WEDTECH CORP.'s proposal for the use of a spacer plate has been found unacceptable. An alternate method suggested by NAVFAC engineers or an on-site visit by NAVFAC personnel might lead to a prompt and satisfactory solution.

In the light of the foregoing, WEDTECH CORP. proposes the following delivery schedule for Modification P00006:

CSP 1 - 03 November 1984
CSP 2 - 09 November 1984
CSP 3 - 15 November 1984
CSP 4 - 22 November 1984
CSP 5 - 30 November 1984
CSP 6 - 05 December 1984
CSP 7 - 12 December 1984
CSP 8 - 19 December 1984
CSP 9 - 22 December 1984
CSP 10 - 28 December 1984

Frequent production updates shall be forwarded to your command to indicate the Company's progress. WEDTECH CORP. looks forward to discussing the status of the Contract with NAVFAC's representatives at the Quarterly Review Conference to be held at WEDTECH CORP. on October 17, 1984.

Sincerely yours,

WEDTECH CORP.

Mario E. Moreno
Executive Vice President

mem: s

cc: Captain Piersall-NAVSEA
Mr. Marvin Liebman - ACO - DCASMA/NY
Mr. Joe Anderson - Contracts - SBA/NY

DEPARTMENT OF DEFENSE
UNITED STATES OF AMERICA

DEPARTMENT OF THE NAVY
OFFICE OF THE CHIEF OF NAVAL OPERATIONS
WASHINGTON, DC 20350

IN REPLY REFER TO
9320
Ser 424/4U386366
26 Oct 84

MEMORANDUM FOR THE PRINCIPAL DEPUTY ASSISTANT SECRETARY OF THE NAVY
(SHIPBUILDING AND LOGISTICS)

Subj: POWERED CAUSEWAYS

Ref: (a) PDASN (S&L) memo of 3 Oct 84

1. As requested by reference (a) my staff and I have reviewed the report on the WEDTECH contract submitted by Captain Piersall.

2. The Naval Facilities Engineering Command is responding to the first five recommendations as an area directly under their cognizance and hopefully WEDTECH will address the last.

3. As you will recall, this procurement is being made under a small business administration article 8A set aside. Aside from the performance problems which we are experiencing with the contractor there is the issue of no competition. Without it our costs are significantly higher. The results of the negotiations of the FY-85 procurement contract will confirm this statement. I believe we would be better served if we could get the procurement of causeway systems removed from the article 8A restriction. We then could competitively bid the procurement of causeways either within the full small business spectrum or simply limit competition to the two existing manufacturers on a 70/30 split that favors the low bidder.

R.W. Kesteloot

R. W. KESTELOOT
Director, Logistics
Plans Division

DEFENSE LOGISTICS AGENCY
DEFENSE CONTRACT ADMINISTRATION SERVICES MANAGEMENT AREA
NEW YORK
201 VARICK STREET
NEW YORK, NEW YORK 10014

IN REPLY REFER TO DCASR NY-NB

30 OCT 1984

SUBJECT: Powered Causeways

TO: Mr. L. Wayne Arny, III
Principal Deputy (Shipbuilding & Logistics)
Assistant Secretary of the Navy

1. I have carefully reviewed your memorandum concerning the contract through Small Business Administration with Wedtech Corporation in support of the Powered Causeway Procurement Program.

2. We offer the following comments as applies to Capt C. H. Piersall, Jr.'s recommendations:

a. Program control responsibility, an important issue, has been further clarified by agreements reached between PCO and ACO (Enclosures A & B). Technical on-site assistance is being provided by DCASMA-New York's Quality Assurance, Contract Management, Engineering and other qualified personnel. However, it should be noted that the Contractor (Wedtech) tries to use every delay factor open to the imagination to buy time and cause confusion to the various Government agencies represented.

b. Production progress has been monitored against the Contractor's schedule. DCASMA-New York had for a period of time, QARs, covering three (3) Contractor work shifts, six (6) days per week! Further, a DCASMA-New York "Tiger" Production Team was formed to find, identify cause and responsibility and isolate major production delay factors at the Contractor's plant and advise our ACO of these findings.

c. DCASMA-New York's ACO with an in-house support Team (Production, Quality Assurance, Technical, Engineering, Financial and Contract Administrators) is continuously monitoring progress and maintaining instant communication between all parties concerned (i.e., Contractor, SBA (when required), PCO (and PCO's Engineering Support Group) to effect speedier Contractor corrective actions.

30 OCT 1984

DCASR NY-NB PAGE 2
SUBJECT: Powered Causeways

d. My Deputy and I continually review Government meetings and the formal quarterly Contractor meetings to assure that all contractual requirements are implemented. We also continually assess contract progress and recommend solutions to improve production, product quality and delivery.

3. With the proper delegations referred to in Enclosures A & B, we will be much more effective in supporting the Navy in completing this very important contract.

Don H. Hein
DON H. HEIN
Colonel, USAF
Commander

Ø W2D12C4

DEPARTMENT OF THE NAVY
NAVAL FACILITIES ENGINEERING COMMAND
200 STOVALL STREET
ALEXANDRIA VA 22332

14 NOV 1984

MEMORANDUM FOR THE PRINCIPAL DEPUTY ASSISTANT SECRETARY OF THE NAVY
(SHIPBUILDING AND LOGISTICS)

Subj: POWERED CAUSEWAYS

Ref: (a) PDASN (S&L) memo of 3 Oct 84

1. As requested by reference (a), the six recommendations contained in Captain Piersall's assessment of powered causeway procurement have been reviewed.

2. Program control responsibilities have been clarified. Basic controls were set at the Post Award Orientation Conference conducted on 1 May 1984 by DCASMA New York. The PCO has delegated additional authority to DCASMA New York related to Engineering Change Proposals (ECPs), Requests for Deviations (RFDs) and Requests for Waivers (RFWs). Powered causways are now and will continue to be procured through contracts supported by DCASMA offices in various regions. Review of ECPs, RFDs and RFWs categorized as major (effecting configuration, i.e, form, fit and function) will be staffed centrally by the Civil Engineer Support Office (CESO) for final actions by the Configuration Management Board. CESO has discharged this authority successfully for more than ten years on a significant series of contracts. CESO maintains the master library of plans, specifications, and prior configuration management actions, has developed preeminent experience with the broad variety of pontoonery and machinery associated with the program and provides the requisite central consistent engineering overview of all hardware. CESO's allied responsibilities for Consolidated Allowance (COSAL) development, spares procurement and casualty analysis strengthens the requirement for their continued dominent role in engineering. CESO is in the process of building an Integrated Logistics Support Program (ILSP) administration capability and will be delegated associated authority, now held by the Procurement Manager Office, when requisite capability has been achieved.

3. The Contract Data Requirements List (CDRL) has been reviewed. Because of the structure of the standard DOD CDRL list, and its primary use with very complex major acquisitions, it is necessary to specify a relatively large (56) number of CDRLs to tailor the data requirements downward to realistically reflect the less sophisticated hardware procured under this contract. Use of fewer but more powerful CDRLs would result in increased rather than decreased requirements being imposed upon the contractor. Although the creation of new contract specific CDRLs is not encouraged, NAVFAC is investigating writing one to cover production schedule information we find necessary to properly manage our particular lighterage program. If successful, it would replace other CDRLs.

4. Wedtech has recently submitted an acceptable Configuration Management Plan and complete Membership of the Configuration Control Board was promulgated by the Procurement Manager: the Board will be convened when and if major ECPs effecting life, or having major cost impacts are submitted.

5. Contract progress is monitored against Wedtech milestone schedules as they become available. Regretably, Wedtech has experienced difficulty in developing stable, clear and meaningful schedules. Early Wedtech submissions were incomplete and inconsistent. As the series of their submissions have been received, they have improved in both clarity and coverage but have shown a pattern of continuing slippage as critical steps omitted or overly aggregated in prior schedules were understood and unrolled. Their tendency to project sustained repetition of first time activity durations or even to show negative learning curves is diminishing. The Procurement Manager reserves the right to compare both Wedtech's schedule submissions and progress to the schedule we obtained from an experienced consultant. It should be noted that the consultant visited the Wedtech plant, examined then extant Wedtech schedules and production plans, and conferred with designated Wedtech staff members prior to formulating the data referred to in Captain Piersall's report. We believe we have made appropriate use of both planning sources.

6. The Procurement Manager (PC-3) has elected to revise the procurement specification for engine exhaust systems to allow broader price competition. Accordingly, level 3 drawing from Kay Industries are relatively less important.

7. We believe that Wedtech can best respond to the recommendation concerning technical data submitted with ECPs. We note with pleasure the effort undertaken by Wedtech to improve the quality of such data.

8. The independent view afforded by Captain Piersall and his team is appreciated and remains a valuable aid to procurement management. The following comments relate to some of the observations appearing in other than the recommendation section of his procurement assessment.

a. For the past month, representatives of CESO have been at the contractor's plant to provide the promptest possible resolution of engineering problems. Civil Engineer Corps Officers from the PC-3 staff have been continuously on site to coordinate the effort of all related government offices and to provide valuable daily feedback on progress and on ways in which overall management can best be tailored to the apparent needs of the Section 8a contractor. The PC-3 ILS manager has made weekly trips to the plant to foster closer coordination between Wedtech and Advanced Marine Enterprises (AME), their software subcontractor, and also to provide on site assistance/approval of software submissions. Whereas Captain Piersall's team accurately reported a distance between Wedtech and AME, the ILS manager now reports a much more frequent, forthright and productive dialogue which is markedly decreasing the backlog of overdue ILS submissions. These submissions are not only contract deliverables but are the basic framework of documented planning and procedures for production, quality control and testing whose prior absence has hurt Wedtech's performance. This level of government effort, largely occasioned by the decision to utilize a Section 8A contractor, was neither envisioned nor budgeted. While it is hoped that it will not be necessary throughout the contract, a request for additional O&MN funds is being prepared to support such extroadinary travel and overtime salary costs during critical periods when first-of type units are being manufactured and tested. Further, and perhaps more important, the Procurement Manager is working with the DCASMA to obtain the full time assignment of an officer or civilian member of the DCASMA staff to function as the Procurement Manager's Representative (PMR), in-plant, for continued daily coordination.

b. The Officer first sent to the site as PMR has worked very closely with Wedtech management and advises that Wedtech has responded in a forthright and cooperative manner. With his assistance in understanding the methodology of precedence networking, Wedtech has recently produced the first comprehensive network of activities necessary to produce a powered causeway section and is now time phaseing that network. At the PMR's suggestion, Wedtech has installed a telecommunications modem on their word processing equipment and has initiated rapid transmission of written material between their company office and the PCO. The PCO is equipped to telecommunicate to both CESO and PC-3; submissions and approvals have thus been expedited. The DCASMA has commenced an effort to obtain compatable equipment within local DCASMA authority and fund availablity. When this electronic network is complete, most of the liabilities of distance between participating offices will be minimized.

c. The PMR has provided Wedtech with a series of NAVFACENGCOM produced wordprocessing glossaries which facilitate entry, array and analysis of both planning and production data. These management aids have been specifically tailored to Wedtech input and, we believe, are well received by their management.

d. Government furnished pumps, are still not being shipped in accordance with contract commitments but have not been the pacing factor since the first pump was installed. We do not forsee their delivery dates as controlling the delivery of the first nine CSP and probably not the tenth. The Wedtech contract has been amended to delete CSP performance specification which are dependent upon pump performance. Wedtech has reduced installation time, with experience, from some twenty days to about four. We expect further improvement. We are continuing our efforts to expedite delivery of pump assemblies from the government contractor to Wedtech even though there are more pumps now on site than can be effectively used.

e. The CESO representative has directly assisted Wedtech in achieveing production and preparing for testing by ordering out of Navy Stock certain parts such as Flexors, rubber fendering and solenoids which the contractor's procurement systems did not obtain in a timely manor. CESO will continue to work with Wedtech to obviate as many as possible of the procurement delivery delays impacting Wedtech production.

9. While the actions described above have already been of significant benefit and bode well for the future, the fact remains that Wedtech's most current projections show test and delivery schedule slippages which will result in our inability to provide powered causeways when required for initial loading of any of the first three MPS ships. The First Article Test (FAT) schedule provided orally by Wedtech to Captain Piersall's team, calling for testing to commence the first week of October with delivery to the Government by 15 October, did not occur. Only two of the CSP were in process of final assembly on November 6th : the first was at about 62% and the second at 58% . From on-site observation of both hardware and documentation production, we do not project FAT to commence until the last week of November which could result in first delivery at the MPS loadout site some three weeks later. Wedtech's best estimate of such timing is anticipated in the coming week and is not expected to differ materially from the Government's.

10. We continue to be pleased with the observable quality of Wedtech fabrication work. Both Wedtech and this office continue to be distressed by the quality shortcomings exhibited by one of Wedtech's subcontractors. Wedtech has had little success in obtaining quality improvement from that subcontractor despite commendable effort on Wedtech's part. The net result is that Wedtech is having to rework CSP bow sections received by them in unacceptable condition. Production does not yet appear to be materially impacted by that quality control problem. Wedtech has advised that they intend to produce their own bow-sections at a plant they recently bought in Michigan.

!!?
which one?

11. Actual Wedtech learning curve data has been collected for the ubiquitous P-1 pontoon module used in virtually all Wedtech hardware deliverables. Production data on the more sophisticated Waterjet Propulsion Assemblies (WPA) and the CSP final assembly itself are still too limited to allow meaningful projection. Obviously we have extremely scant information from Wedtech upon which to estimate timing aspects of their performance in producing other more sophisticated deliverables such as the Side Loadable Warping tugs (SLWT). Although we have received numerous schedules for the first ten CSPs we have seen no revisions of the original abbreviated manufacturing plans for the remainder of the base contract work nor for the scope of the fiscal year 1985 option. As such information becomes available, the Procurement Manager's analysis will be synopsized for your information.

12. In summary, I am optimistic about quality, pleased with Wedtech's cooperation, and deeply concerned by current and potential delivery schedule slippages. Significant steps have been taken to streamline PM/PCO/ACO and Contractor coordination, communication and control: all of which will continue to receive management attention for further improvement. Establishment of a full time PMR at the South Bronx facility is being aggressivly pursued as an essential action. Funding and staffing to assist the Section 8a contractor over the long haul is a fact of life problem currently being addressed. Your continued interest and the insights of Captain Piersall's assessment are appreciated. Copies of this response will be provided to the several addressees of reference (a).

D.C. de Vicq

D.C. de VICQ, CAPT, CEC, USN
Acquisition Manager for
Sealift Support Facilities

DEPARTMENT OF THE NAVY
THE ASSISTANT SECRETARY OF THE NAVY
(SHIPBUILDING AND LOGISTICS)
WASHINGTON D.C. 20360

NOV 19 1984

MEMORANDUM FOR THE COMMANDER, NAVAL FACILITIES ENGINEERING COMMAND

Subj: POWERED CAUSEWAYS

I request that you proceed to exercise the Fiscal Year 1985 contract options on the subject program to the current contractor, Wedtech Corporation. These options are to include the side loadable warping tug, powered causeway, non-powered causeway and the non-powered un-assembled causeways.

I recommend that the contract vehicle be similar to a start work order with a substantial obligation of funds, a minimum of 50% of the estimated cost. Further, you should also include a projected not-to-exceed dollar figure that is considered fair and reasonable.

I desire that you complete the above action by 3 December 1984.

L. WAYNE ARNY, III
PRINCIPAL DEPUTY
ASSISTANT SECRETARY OF THE NAVY
(SHIPBUILDING AND LOGISTICS)

Copy to:
OPNAV-42
MAT-022
PMS-377

DEPARTMENT OF DEFENSE
UNITED STATES OF AMERICA

DEPARTMENT OF THE NAVY
NAVAL FACILITIES ENGINEERING COMMAND
200 STOVALL STREET
ALEXANDRIA VA 22332

21 November 1984

MEMORANDUM FOR THE PRINCIPAL DEPUTY, ASSISTANT SECRETARY OF THE NAVY
(SHIPBUILDING AND LOGISTICS)

Via: Chief of Naval Material (MAT 02)

Subj: POWERED CAUSEWAYS

1. Your direction of November 19, 1984 to proceed with the exercise of the fiscal year 1985 contract options with Wedtech, the prime contractor, has been received. It is respectfully requested that you reconsider your direction to initiate the option procurement by means of a start work order with a minimum fund obligation of 50% of the estimated cost for the following reasons:

a. The preliminary business clearance for the Government pre-negotiation position is presently being finalized at a Government estimate of $42 million for the entire FY 85 procurement. The contractor's position for the option is currently at $68 million.

b. The Defense Contract Administration Service Region for New York has recently conducted a contractor system review of Wedtech's purchase policies and is withholding approval of the system. Specifically DCASMA, New York has highlighted many weaknesses in the contractor's performance of cost and price analysis, single/sole source ordering, documentation of procurement files, review and negotiations of vendors' quotations and competitive practices.

c. Issuance of letter contract in a not-to-exceed amount prior to formalization of firm fixed price will result in the need for distinct contractor controls to isolate costs incurred on the letter contract vice cost incurred under prior firm fixed price basic contract, an almost impossible administrative requirement. In addition, the Government will find it necessary to apply additional resources to verify, if not in fact control subcontractor and vendor orders and awards for material required for the option quantities.

d. Issuance of letter contract at this time will minimize contractor desire to reach full and final agreement on firm fixed price in an expeditious matter as it is to his advantage to accumulate actual cost vice forward pricing.

e. Award of the entire option by means of a letter contract will foreclose any realistic Government option to seek other means of production in the event negotiations of firm fixed price fail, except by a termination for convenience and its associated unnecessary additional costs.

2. Once again I request that you reconsider the direction given concerning the award of a letter contract. Should you desire additional diccussion on this point, please be assured that I or my Assistant Commander for Contracts, Mr. Joe Cowden, am available to amplify on the points raised.

J. P. JONES, JR.
Rear Admiral, CEC, U. S. Navy
Commander

DEPARTMENT OF THE NAVY
HEADQUARTERS NAVAL MATERIAL COMMAND
WASHINGTON, D.C. 20360

IN REPLY REFER TO
Ser 09/1326
11 Dec 1984

FIRST ENDORSEMENT on NAVFAC MEMORANDUM FOR THE PRINCIPAL DEPUTY, ASSISTANT SECRETARY OF THE NAVY (SHIPBULDING AND LOGISTICS) of 21 NOV 84

From: Chief of Naval Material
To: Assistant Secretary of the Navy (Shipbuilding and Logistics)

Subj: POWERED CAUSEWAYS

Ref: (a) Phone Conversation ASSTSECNAV SL and VCNM 26 Nov 1984

1. During reference (a) you rescinded your direction to initiate the option procurement by means of a start work order with a minimum fund obligation of 50 percent of the estimated cost. In its place you directed that we should proceed toward contract award in an expeditious manner in consonance with good practices. To this end, Wedtech's proposal for the option has been evaluated by NAVFAC and a pre-negotiation business clearance has been approved by my staff. There is now a $26M difference between the Wedtech proposal of $68M and the NAVFAC pre-negotiation position of $42M. I have directed that negotiations proceed on an expedited basis and while difficult negotiations are anticipated, I am hopeful that a mutually satisfactory business arrangement can be negotiated within the next thirty days. I have requested NAVFAC to provide an update on their negotiations by 10 December 1984. Hopefully, Wedtech will approach these negotiations with the same degree of concern and desire to expeditiously reach an agreement.

2. I will keep you apprised of our progress.

R. A. MILLER, VCNM

Copy to:
COMNAVFACENGCOM

[illegible]

ϕ WEDTECH ① Mr Lehman —
See last ¶
Lets discuss

DEPARTMENT OF THE NAVY
OFFICE OF THE CHIEF OF NAVAL OPERATIONS

Date: 12/24/84

MEMORANDUM

FROM: DEPUTY CHIEF OF NAVAL OPERATIONS (LOGISTICS)

TO: ASN (S&L)

Subj: WEDTECH Causeway Contract FY85

NAVFAC PM still negotiating hard. The Government offered a labor rate and mfr overhead rate for Michigan; Wedtech reply received 21 Dec and is being analyzed. Agreement reached on these rates for the New York yard.

The Wed Tech price has come down from $63M to $595 (Still at significant odds with Government estimate of fair market value $42M. Problem still being worked. We could not afford $59.5M even if the price was right.

The first powered causeway has FAILED its first article test — 68 outstanding items; 66 are minor and easily rectified and two are more serious but correctable.

a. Undersized steering hydraulic pump shaft was jury-rigged and gave under load.

b. Failed to weld both flanges of a stiffener.

Anticipate another 10 day slip

DEPARTMENT OF THE NAVY
OFFICE OF THE SECRETARY
WASHINGTON D C 20350

28 December 1984

WEDTECH

MEMORANDUM FOR MR. PYATT

VIA: MR. ARNY Q 12/28

Subj: STATUS OF CAUSEWAY PROJECT

I received a telephone call on December 27, 1984, from Mr. Mario Moreno of Wedtech concerning the status of the causeways contract. He indicated that first article testing had been suspended pending correction of deficiencies identified during the testing. Although 88 contractor deficiencies were documented, only one is really significant. The steering hydraulic pump shaft furnished by a subcontractor does not meet specifications and did not function as required. This will be corrected within one week, as well as all other deficiencies.

Of greater concern to Wedtech are defects found on the Government furnished water jet propulsion pumps. Upon dismantling the portside pump signs of heavy galling were found in the pump shaft bearing. Further inspection also revealed existence of foreign particles indicating inadequate cleaning between the casting phase and machining phase of production, as well as inadequate inspection.

Wedtech and Navy engineers on site agreed that these 20 GF pumps will have to be removed from the CSP's where installed and returned to the Government supplier for repair, cleaning, and reassembly. Seventeen of the pumps have been installed in CSP's.

Since Captain de Vicq was not available, I discussed this matter with Commander Sullivan, NAVFAC. He acknowledged that there are problems with the pumps. Navy is working out a plan for the supplier, Wards, to correct the problem. Although the pumps will have to be returned to the factory, Wards will attempt to repair two units on site. This will permit resumption of first article testing. Incidently, I understand the Wards factory is closed until January 3rd.

Mr. Moreno indicated that Wedtech will be prepared to resume first article testing by January 4th. However, Navy QC personnel require a five day notice before they return to resume testing.

Bob Saldivar
H. ROBERT SALDIVAR

MEMORANDUM

1/2/85

From: OP-42

To : OP-04

Subj: PCS Status

1. Talked to Captain Devique. The FAT for the initial PCS now lists 88 discrete discrepancies with 3 relatively major items. That compares to 68 earlier problems, 2 of them major. He says that all 88 are manageable, but require time. Of more concern is the fact that the contractor has stopped assembly of current work until he can identify the cause of the failures and the required corrective action. This, of course, threatens future schedules.

But I would do the necessary

2. Captain Devique is going up to WEDTECH on Friday to discuss schedules. He feels as though the company is still not capable of projecting proper work and delivery schedules. He's there to assist them and, hopefully, leave them with something useful for their FY85 contract negotiations which are scheduled to resume on Monday, 7 January. He believes that going out on the street for another bidder could possibly improve price, but not delivery dates. The last round of negotiations resulted in a closing of the price gap by $10M, but they were still $10M apart. At that time, WEDTECH did not have their material or labor costs in hand. Most of the negotiations centered on overhead rates and I presume these were the basis for the $10M reduction.

3. I think Captain Devique is going about this in the right way. If he can assist them with scheduling, then the company can establish unit delivery dates and therefore project labor and material requirements.

4. I had typed the above prior to your call relaying information about a possible problem with the GFE pumps. Talked to Devique again. There is one problem. There was some welding slag left in a grease tube. The pump performed perfectly; was interchangeable as advertized (which WEDTECH doubted); but upon disassembly of the pump, goring was noted on the bearings. The problem was traced back to the grease tube and immediately solved on the first unit. As a preventive measure, the other 18 units are being inspected for similar contamination. Even if present, the fix is easy. This is not a controlling item and, according to Captain Devique, we should not be quick to exonerate WEDTECH because of this 1 out of 88 items that can be attributed to the GFE pump.

Very respectfully,

Copy to:

OP-42B
OP-422
OP-424

CAPT D. C. de Vicq
PC-3: 12 Feb 85

Status of Wedtech FY 84 Contract & Deliverables

Awarded 17 April 1984 at $24.2M, present value $24.5M, Partial payments to date $11.3M, additional approved for payment $1.9M. 53.8% paid, zero hardware deliveries. To the best of our knowledge, SBA has paid Wedtech less than $200,000 and forsees no futher support with SBA funds.

Training Text from AME (subcontractor) in hand: OK.
O&M Manuals reflect our design, update when Wedtech design done: Manageable.
Production Specs, 14 of 29 submitted, rest now overdue: Hurts resoliciting.
Production Drawings, good portion at Wedtech but none to us: Hurts resolicit.
Production package (P&S) at least 10 weeks away: Badly Delays resoliciting.

All Hardware assembly and some module fabrication: grossly behind.
All Subcontractors plus GFE (pumps and engines) are now stockpiled ahead.
CSP FAT failed: function was ok but form and fit failed: Not Interchangeable.
Subcontractor pontoons passed form and fit: Only Wedtech failed.
Failures are in Propulsion, P-1 and P-1M units: Propulsion units worst problem.
Lots of paint damage from shipping and handling awaits good weather to fix.

Causes seem to be: delays in setting up facilities; inadequate tooling, slow to write, slower to post and unable to enforce welding and fabrication procedures. Simply overwhelmed by shift to shipbuilding technology from prior work.

The first 10 CSP are now overdue and the only 3 yet assembled are being taken apart to identify customization (lack of interchangeability).

Presently Contractor is developing methods to determine which modules produced to date are off-size, how much they are off, how many can be re-worked and by what procedure such re-work can be accomplished.

The contractor is about 4 months behind on deliveries: we estimate that his first 3 CSPs will not be delivered for shipment to the port of embarkation for another 15 weeks and that his production rate for powered units will never exceed 1.5 per week.

Status of 85 Option Negotiations

Started 13 Dec 84: two major changes in Contractor proposal since then.
Opening positions: Navy $42.8M, Wedtech $68.4M ($25.6M apart).
First major change introduced Wedtech's new Michigan Shipyard and cut $8.9M.
As of COB 12 Feb, Navy $47.4M, before mark-ups for G&A, Manufacturing OH etc.
- with mark-ups, Navy would be at $50.7M: Wedtech $53.9 ($3.5 to 6.2M apart).

NAVFAC holds $57M for the FY 85 program.
Both parties want to strike bottom line ASAP.

MORE

Navy Estimate of Possible Production Capabilities

For this briefing, we have made a new conservative, bottom up re-estimate of what Wedtech can do. Have considered time to determine how much production to date needs be scrapped or can be reworked to fit, time to develope and review rework procedure, time to get better tooling and procedures in place, time when Wedtech could have covered assembly area on the water, time when the Non-Powered units (Michigan) can get out the Saint Lawrence Seaway etc. Effect of resoliciting 85. Effect of resoliciting 86.

MPS-1T is blown, period.
The lighterage now aboard MPS-1T was loaded only to avoid in water storage.

Non-powered units are manageable under all options we figured.
Powered units, CSPs in particular are always the constraint.

If we change the mix of units constructed in FY85 and FY86, and change the mix of shipments to fill MPS requirements before Assault Echelon and AFOE, a reasonable outfitting of MPS-1 and full outfitting of MPS-2 and MPS-3 (accelerated) ought be achievable. The totals of any deliverable and the total annual program cost would not be changed. NAVCOMPT would have to be notified of the change - and we are prepared to do that. A paper detailing the change is attached.

A complete table of load dates and production for Wedtech 84 and 85 scope, adjusted by the changes just mentioned, is attached. A summary of the assumptions we made is also attached. OP-42 is prepared to speak to in-stream offload capability provided by the load table projections.

If we do not make those changes, and were to delay sailings until full loads were ready, the following delays, in weeks, would surely occur.

We would miss individual sailing dates for ships ands squadrons, in weeks, as follows:

MPS-1

Kocak 13 wks, Obregon 18 wks, Bobo 22 wks, Pless 8 wks
Squadron as a whole, same as Pless, 8 wks i.e. not until mid September 85 vice late July 85.

MPS-2

Hauge 4 wks, Baugh 4 wks, Anderson 7 weeks: their 3 ship sortie would be held until mid November 85 vice end of September.
Fisher 2 wks: her individual sortie would be end vice mid November 85.
Bonneyman 2 wks: her individual sortie would be mid vice early December 85.

MPS-3

MPS-3's original schedule would be met.
The accelerated schedule could not be met.

MORE

The real windows to drop the 85 option were missed last fall, as we said at ASN (I&L) meeting last September. We take position that to resolicit now we must do it right: specifically we must give a good package of Plans and Specs updated with all Jeffboat (FY83) and Wedtech (FY84) ECPs plus our configuration audit lessons learned. We must give the market 45 to 60 days to bid and we must do a good pre-award survey. That being the case we would be 6 to 8 months worse off resoliciting (assume 1 March 85 decision) than exercising 85 Option. We can do some good for AE/AFOE by dropping 86 option and resoliciting.

Insurance

Basically, there are no guarantees that we can see.

The closest thing to insurance is a second source that dosen't start as 8a.

We would propose bidding the FY86 Navy buy with the Army buy - unrestricted - as soon as that can be properly accomplished. The package could be bid late in FY 85, with sound plans and specs.

END

DEPARTMENT OF DEFENSE

DEPARTMENT OF THE NAVY
OFFICE OF THE CHIEF OF NAVAL OPERATIONS
WASHINGTON, DC 20350

IN REPLY REFER TO
4020
Ser 424/5U392819
20 Feb 85

From: Deputy Chief of Naval Operations (Logistics)
To: Assistant Secretary of the Navy (Shipbuilding and Logistics)

Subj: PROCUREMENT OF CAUSEWAY SYSTEMS UNDER SBA (8a) SET ASIDE

1. On 13 February I met with NAVFAC, MSC, and Mr. Saldivar from your staff to discuss the current status of causeway procurements to outfit Maritime Prepositioning Ships. We reviewed the current status as well as WEDTECH's efforts to get well. Estimates of their ability to deliver were dismal at best. As it now stands it is optimistic to expect the final delivery of MPS-1 lighterage before October 1985. This is a full year after the original delivery date of the first powered causeway sections (29 Oct 84).

2. As you know we were ready to start fielding MPS-1T late last year. All the Marine Corps equipment and Navy Support Element equipment have been ready to load when the ships were available, except for critical lighterage elements provided by WEDTECH. This puts the Navy in the uncomfortable position of having a large investment in equipment at sea to respond to crises which cannot offload in the stream in the required five days. After careful review of WEDTECH's progress to date, the problems they are still experiencing and the prognosis for recovery, I now consider it imperative that we take what action we can to limit the exposure to their inability to perform.

3. I strongly recommend, in the interest of limiting risk, that we take immediate action to move causeway procurement out of the SBA arena with our FY-86 procurement. This action would open our program to the benefits of competition, send a clear message to WEDTECH of the seriousness of the situation and limit exposure to a complete default. This action, as I explained to Mr. Saldivar, would not eliminate WEDTECH from competing if they should get on their feet. In our deliberations we determined that not giving the FY-85 option to WEDTECH would probably result in a further five-month delay. I have no doubt that WEDTCH will offer us many proposals that would seemingly meet our schedule. Their past performance, however, has not supported their optimistic projections.

4. My recommended course of action then, is to offer the Army FY85 procurement with the Navy FY86 procurement as a competitively bidded contract.

T. J. HUGHES
Deputy Chief of Naval
Operations (Logistics)

LES ASPIN, WISCONSIN
CHAIRMAN

G. KIM WINCUP
STAFF DIRECTOR

WILLIAM L. DICKINSON, ALABAMA
RANKING MINORITY MEMBER

House of Representatives
COMMITTEE ON ARMED SERVICES
Washington, DC 20515

AA 433
6
WEDTECH

WEDTECH

- Phased Maint Contract
  - $55M
  - low bidder by $9M
  - Mario Biaggi
- Lyn Wetherby 456-7766

Contract is for a maintenance truck for the Army and is a phased contract. This is under the cognizance of the Assistant Secretary of the Army (RD&A) Jay Sculley.
X56153

v/r Kent Rodeheaver

Hartman
325-9246
LC

Col Russell

AA 228

OFFICE OF
THE ASSISTANT SECRETARY OF THE NAVY
(SHIPBUILDING AND LOGISTICS)

3/1

MEMORANDUM Al Steadley
PRINCIPAL DEPUTY ASSISTANT SECRETARY (SHIPBUILDING AND LOGISTICS)

Al,

Apparently, a navfac? report exists concerning WEDTECH that they would like sent to their Army.

PGM

Call fac
Fwd to
Army

Jay Scully;
ask mark Buggy

[redacted]

Φ WEDTECH

AA 228

OFFICE OF
ASSISTANT SECRETARY OF THE NAVY
(SHIPBUILDING AND LOGISTICS)

3/11

MEMORANDUM for PD

DEPUTY DIRECTOR, FACILITIES AND CONSTRUCTION

I spoke with Capt Jim Kelley (modern day Dave D'V) There is no report, but Jim was willing to talk to the Army, and to say that Wedtech is on track and doing well (or at least OK+). I spoke, too, with Jay Sculley's EA, Mike Bissell, and he will have his guys call Jim. I relayed this "arrangement" to Mark Bragg.

VR.
A

8 Apr 85

To: Mr Saloinar

SUBJ: WEDTECH CONTRACT

1. UNDERSTAND THAT Mr ARNY MAY RECOMMEND MONITORING WEDTECH PROGRESS FOR A PERIOD OF ABOUT SIX WEEKS PRIOR TO DECISION ON 86 OPTION.

2. Capt de Vicq ASKED ME TO PROVIDE YOU WITH THE ATTACHED BENCHMARKS FOR POTENTIAL USE SHOULD Mr ARNY MAKE SUCH A RECOMMENDATION.

V/R

T. L. Hewlett
Cdr, CEC, USN
PC 3L
325-8533

DEPARTMENT OF THE NAVY
OFFICE OF THE CHIEF OF NAVAL OPERATIONS
WASHINGTON, DC 20350

4020 IN REPLY REFER TO
Ser 424C/5U393830
08 May 85

From: Chief of Naval Operations (OP-04)
To: Assistant Secretary of the Navy (Shipbuilding and Logistics)

Subj: PROCUREMENT OF CAUSEWAY SYSTEMS UNDER SMALL BUSINESS ADMINISTRATION (8A) SET ASIDE

Ref: (a) OP-04 memo Ser 424/5U392819 of 20 Feb 85

1. In reference (a), I summarized the recurring problems with WEDTECH and their inability to deliver powered causeway sections (CSP) in support of Maritime Prepositioning Ships (MPS). I concluded by recommending that we offer the Army FY-85 procurement and Navy FY-86 procurement as a competitively bid contract. Since that time we have yet to receive the first CSP. We are past the point of simple schedule slippages and are now dealing with a very real degradation of our sealift offload capability.

2. As a result of schedule changes thus far, we have had to make several decisions that effectively reduced overall readiness. In the first quarter of FY-85, MPS-1T did not receive sufficient lighterage and, consequently, was not deployed as planned. In February, as deadlines continued to pass, we were forced to shift the priority of CSP loadouts from MPS-1 to MPS-2, in order that units of the NTPF might be relieved on schedule. Even so, units of MPS-2 will receive lighterage up to 257 days late and lighterage delays for MPS-1 will exceed one year. As a part of this same action, MPS was given a higher priority than the assault echelon (AE), thus reducing the Navy's amphibious assault capability. We are providing MPS with a newer class asset before providing the active forces with equal assets for training or deployments. Finally, the FY-84 SLWT deliveries to the Amphibious Construction Battalions would have supported the demonstration of the Offshore Petroleum Discharge System in September 1985. In order to demonstrate that system we are now forced to further delay delivery of one SLWT to MPS-1.

3. Delivery of the first ten CSPs was required by 29 October 1984. At best, I anticipate delivery of the first CSP in June with the tenth CSP delivery in early August. With the exception of minor delays experienced in delivery of the initial GFE propulsion pumps and correction of a debris contamination problem in the GFE pumps, responsibility for delay in lighterage delivery rests with the contractor. WEDTECH's problems include a multitude of items such as: (1) inadequate production and assembly facilities, (2) improper tooling procedures, (3) absence of necessary production and assembly work procedures, (4) inadequate quality control measures and, (5) inexperience in building small craft/ships. These are all contributing factors to delivery schedule slippage and also to the dimensional and tolerance problem WEDTECH is

currently addressing. To expedite delivery of the first ten CSPs we are granting rework waivers; however; all other lighterage must be built in accordance with plans and specifications. I am not confident, more than a year after contract award, that they have resolved their facilities, quality, or management problems to the extent necessary to preclude further delivery dalays. Assuming no further schedule slippage, WEDTECH currently has a full year of production and assembly remaining.

4. I do not see satisfactory progress, and the delays experienced have severely impacted the fielding of MPS shipping and the capabilities of our amphibious assault force. I must reiterate my strong recommendation that we act now to cut our losses by issuing an unrestricted IFB for the Army FY-85 and the Navy FY-86 procurements.

T. J. HUGHES
Deputy Chief of Naval
Operations (Logistics)

DEPARTMENT OF THE NAVY
THE ASSISTANT SECRETARY OF THE NAVY
(SHIPBUILDING AND LOGISTICS)
WASHINGTON, D.C. 20360

MAY 15 1985

MEMORANDUM FOR THE COMMANDER, NAVAL SEA SYSTEMS COMMAND

Subj: Contract Administration of Wedtech, Inc.

The Naval Facilities Command currently has Wedtech, Inc., under contract to produce causeways for the Navy. The contractor is located in the Bronx, N. Y., and the contract is locally administered by the DCAS.

Wedtech is late with deliveries of hardware, software, and cost performance reports, and has experienced quality control problems. We would like SUPSHIP Brooklyn to conduct an independent review of the current status of their contract performance, and provide an assessment of Wedtech's ability to satisfactorily complete the contract to their latest revised delivery schedules.

I would estimate no more than 2 or 3 individuals would be required for less than a week for this review, and desire that it be completed by the end of the month. I would like an assessment of the following items:

o Adequacy of the drawing package provided by the Navy, including reasonableness of tolerance requirements and their achievability

o Adequacy of contractor's production plans, facilities, and personnel to meet current delivery dates

o Adequacy of current QA program to ensure acceptable product

o Adequacy of contractor's test plans to suitably demonstrate compliance with contract requirements.

The point of contact at NAVFAC for this program is CAPT David C. deVicq, (202) 325-9014, who can provide contract history and current status.

EVERETT PYATT
ASSISTANT SECRETARY OF THE NAVY
(SHIPBUILDING AND LOGISTICS)

DEPARTMENT OF THE NAVY
NAVAL SEA SYSTEMS COMMAND
WASHINGTON DC 20362-5101

IN REPLY REFER TO

Ser 074B/429
13 June 1985

MEMORANDUM FOR THE ASSISTANT SECRETARY OF THE NAVY (SHIPBUILDING AND LOGISTICS)

Subj: CONTRACT ADMINISTRATION OF WEDTECH, INC.

1. SUPSHIP Brooklyn conducted an independent review of the WEDTECH Causeway Contract Performance and made an assessment of WEDTECH's ability to make satisfactory delivery to meet the latest schedules as requested by ASN (S/L) on 15 May 1985.

2. The following summarizes the SUPSHIP assessment of the items requested:

a. The drawing package is considered adequate and the tolerances specified are reasonable and achievable. The Contractor had problems previously with maintaining dimensional stability which precluded interchangeability of units due to inadequate fabrication procedures and welding sequencing. The Contractor has now installed Jig arrangements which should assure dimensional stability and maintenance of the tolerances to obtain interchangeability of units. WEDTECH is currently involved in a rework/repair operation to correct deficiencies in fabricated units, and is utilizing the Jigs, to make them acceptable to the government. SBKLYN was unable to witness the results of the new Jig - Assembly technique in the fabrication of new units, due to the rework operation, but the new technique is impressive and should result in acceptable modules.

b. At this point WEDTECH production planning is inadequate. However, facilities and personnel are adequate to effectively accomplish this work. The rework production schedules provided for units 104, 105, and 106 require modification to reflect new production strategies which have been recently developed. The production delivery dates for the first three units have been missed and the prognosis for the next three is not good. Scheduled delivery for 104-106 is June 14. DCAS on-site Quality and Industrial Specialist personnel project delivery around July 15. SUPSHIP assessment indicates that delivery is possible by the end of June. The facilities have been significantly upgraded with numerous production and inspection jigs developed to improve the manufacturing process. Improved material handling capabilities are planned, and on order, for implementation after the rework cycle is completed. The attempt to train hardcore unemployed personnel has all but been abandoned in favor of hiring previously qualified personnel. Manning capabilities appear sufficient. Furthermore it is projected that delivery dates of units will improve due to the recent facility upgrade, and recovery of the schedule should occur after the rework phase is completed.

Subj: CONTRACT ADMINISTRATION OF WEDTECH, INC.

c. The WEDTECH QA program as currently configured was determined to be adequate. QA/QC management personnel were knowledgeable of quality principles and philosophies. They understood their responsibilities in regards to the quality requirements of the contract. They have made important inroads in improving production since the departure of the original program management team. The quality program and inspection system plans and documentation are appropriate to the complexity of the program. The QA organization includes its own test engineering staff (recruited from a shipyard) who oversee testing of the causeways and pilot them during bay trials. Several sophisticated quality initiatives have been implemented or planned. These include computer generated quality data analysis and rework cost data tracking. Good welding qualification procedures and controls were in evidence.

d. The Contractor Test Plans are adequate to suitably demonstrate compliance with Contract Requirements. There were problems with meeting tolerances in fabricated units, necessitating extensive rework. The rework was held up until recently, pending Government approval of rework procedures. There were no apparent problems with the control and propulsion unit installations. The Contractor has now prepared detailed tests to prove conformance of components and final product to contract requirements. These, in conjunction with the contractor's independent Quality Assurance Department and onsite DCASR personnel, are considered adequate to insure delivery of an acceptable end product.

3. In addition, the Cost Performance Report (CPR data) to satisfy Contract requirements apparently has not been adequately prepared. Furthermore there currently is no indication that this will improve in the near future. The original contract requires a monthly CPR, but only an annual CPR was completed (April 84 - April 85), which was not yet submitted to the Government. Although complete format requirements were not made available to SUPSHIP, the CPR appeared to be deficient in; cost breakdown, latest Revised Estimate (LRE) and variance analysis. Improvement in these areas is definitely required.

4. Summarizing the above, WEDTECH has had severe problems and difficulties with performance under the Contract, but they are currently in an ambitious "GET-WELL" program, which has the potential of resulting in satisfactory completion of the Contract. It is our opinion that, within the near future, the results of this improvement program will be evident.

E. B. Fowler

E. B. FOWLER

[redacted]

8/8

EW,

4-2-85

Subj: Ø WEDTECH.

I talked with Tom and spoke of my concern for WEDTECH matter, and that I agreed with his approach. Mentioned I was concerned with the 50/50 split versus the 80/20 or 90/10 I had preferred, but that if these slips held true, I would support him fully. Said I wanted to wait to answer his message until I got back. He agreed. By then we will know if the slip is real.

I also read the appropriate messages over the phone to Mark Bragg. He was as concerned as I was. His bottom line has always been that he will support them as long as they produce. His distress at the recent events was evident.

WC

DEPARTMENT OF THE NAVY
OFFICE OF THE CHIEF OF NAVAL OPERATIONS
WASHINGTON, DC 20350

IN REPLY REFER TO
4027
Ser 42/5U395175
26 Aug 85

From: Deputy Chief of Naval Operations (Logistics)
To: Assistant Secretary of the Navy (Shipbuilding and Logistics)

Subj: PROCUREMENT OF STANDARD NAVY PONTOON CAUSEWAY SYSTEMS UNDER SBA (8a) SET ASIDE

1. The Wedtech Corporation continues to have severe problems in establishing and maintaining production schedules for lighterage required to outfit Maritime Prepositioning Ships. Wedtech provided a revised schedule on 30 July and began to fail to attain it less than ten days later. A further revision was given at the monthly progress meeting held 20 August and was not being met two days later. Each schedule presumes greatly increased future production rates while showing delayed current rates. Based on deliveries to date, I have been forced to further degrade MPS-1 by downloading three powered lighters required for MPS-2. In accordance with your recent direction, NAVFAC will offer Wedtech the entire Fiscal Year 1985 Army lighterage procurement. It appears that Wedtech will be unable to even start powered lighterage for the Army until after the delivery dates requested by Army. The criticality of proceeding to establish a second production source is more than evident.

2. At your request, the Navy Fiscal Year 1986 procurement requirement has been reviewed to determine the minimum portion necessary to establish a second SBA Section (8a) source. The mix of powered and non-powered lighters and the number of different pontoon types used in each were primary factors in the review. Causeway Sections, Powered (CSP) are simpler, require less long lead procurement, are less costly and contain fewer different pontoon types than do Side Loadable Warping Tugs (SLWT). There are three types of Causeway Sections, Non Powered (CSNP) required by Navy in FY 86. Of those, the Intermediate Section (Type III), contain both the least number of different pontoons and the maximum number common to CSPs. Initially limiting the second line to CSP and CSNP Type III thus minimizes tooling and long lead time requirements while providing a more reasonable base for start up cost distribution than would CSP alone. Of the 33 powered units in the Navy FY 86 program, only 15 are CSP at a budget total cost of . Of the 90 Navy non-powered lighters required., 59 are Type III. Allocating 44 to the second line would add about , bringing the total close to some less than was awarded to Wedtech in their base year contract. The number 44 is not arbitrary. Looking at the Army FY 85 and residual Navy FY 86 procurement as Wedtech backlog, 44 is one less than half the combined total requirement of 89 Type III lighters: half are

to be delivered to each coast. Further, allocating 45 to Wedtech allows their total non-powered delivery requirement to equal an inte~~r~~ger number of full barge loads for shipment from Michigan to the Norfolk area.

3. The minimum second source allocation proposed for your approval is summarized below:

Navy 86 + Army 85	New Line	Wedtech*
Powered Lighters	15	26
Non Powered	44	82
Other Kits & Spares	NONE	MANY
Budgeted Cost		
Percentage of $	31 %	69 %

* Includes all Army FY 85

4. Once a second line is established, standard Navy pontoon lighterage could be procured based on competition between two SBA Section (8a) sources if required. It is premature to detail a high bid/low allocation formula at this time. It is apparent, however, that the broad mix of lighterage types (a variable each year), the geographic location of sources and the final delivery point of lighterage procured must all be carefully weighed in establishing future allocation formulas.

5. The lighterage Procurement Manager has reported that the minority small business firm which he recently visited with Mr. Saldivar, appears to have good potential as a second source. An expression of interest from SBA is required to provide typical plans and specifications to that contractor to enable those serious and informed discussions necessary before formal procurement can commence.

6. Within the framework of continued SBA Section (8a) procurement, I recommend the allocation tabularized above. Recognizing that discussions and subsequent negotiations with a potential second source may require adjustment to that allocation, I request that your direction allow the Procurement Manager some flexibility.

T. J. Hughes

T. J. HUGHES
Deputy Chief of Naval
Operations (Logistics)

DEPARTMENT OF THE NAVY
OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20350-1000

OCT 11 1985

MEMORANDUM FOR THE DEPUTY CHIEF OF NAVAL OPERATIONS (LOGISTICS)

Subj: PROCUREMENT OF STANDARD NAVY PONTOON CAUSEWAY SYSTEMS
UNDER SBA (8(A)) SET-SIDE

Ref: (a) CNO memo 4027 Ser 42/5U395175 of 26 Aug 85

In response to reference (a), we have reviewed your analysis of the Army FY 1985 and Navy FY 1986 requirements and your proposal to establish a second SBA Section 8(a) source.

The proposed mix of powered and nonpowered lighters and allocation of quantities appear reasonable for the purpose of initiating discussions with the interested organizations. This proposal has been discussed between the Navy Director of Small Business and the Office of the Administrator, SBA. SBA has provided its tentative approval of the proposed arrangement subject to final review upon receipt of a formal offering from the Navy. SBA requested that as an objective, we award the Army FY 1985 as soon as possible and target the Navy FY 1986 Wedtech award for the first quarter of FY 1986. If this award can be effected under the existing contract option provision, we should make every effort to comply with SBA's request.

We recognize the need for the Procurement Manager to have some flexibility to adjust the proposed allocation. Any significant adjustments should be coordinated with the Navy Director of Small Business.

We trust this response will also satisfy your inquiries of 20 February and 8 May 1985 on the same subject. Please let us know if you wish any further information.

EVERETT PYATT
ASSISTANT SECRETARY OF THE NAVY
(SHIPBUILDING AND LOGISTICS)

DEPARTMENT OF THE NAVY
NAVAL SEA SYSTEMS COMMAND
WASHINGTON, DC 20362-5101

OP-42

Copy to
① Asst(S+L)
② MYSLWT file
③ Back to OP42.

ØWEDTECH

4200 IN REPLY REFER TO
Ser PMS377H/7032
01 NOV 1985

From: Commander, Naval Sea Systems Command
To: Chief of Naval Operations (OP-42)

Subj: POWERED CAUSEWAY PROCUREMENT ASSESSMENT

Ref: (a) CNO Washington DC 171633Z Sep 85
(b) NAVFAC Washington DC 101703Z Sep 85

1. Reference (a) requested that NAVSEA (PMS377) conduct a production review at the Wedtech Corporation to assess:

   a. Latest Wedtech schedule for feasibility.
   b. NAVFAC projected rates of delivery.
   c. Team's best estimates of delivery rates for each of next three fiscal quarters.
   d. What actions contractor and/or government might take to achieve more timely deliveries and rates which might thus be obtained.

2. The team, consisting of representatives from PMS377 and Supervisor of Shipbuilding, Conversion and Repair, Brooklyn, N.Y., visited Wedtech Corporation on 22 October 1985. Also in attendance were representatives from NAVFAC and DCASMA New York. The team reviewed current schedules and status, toured the facilities and held discussions on perceived production impacts with the Wedtech staff.

3. The latest Wedtech production schedule analyzed by the team was dated 16 October 1985. The schedule predicts the following deliveries:

First Quarter (FY86) - 15 Craft
Second Quarter (FY86) - 23 Craft
Third Quarter (FY86) - 15 Craft

with the last delivery occurring in May 1986.

Team Assessment - The schedule is optimistic based on production times that are goals and not sustained achievements, and will not be achieved.

4. The NAVFAC schedule analyzed by the team was promulgated by reference (b):

First Quarter (FY86) - 14 Craft
Second Quarter (FY86) - 16 Craft
Third Quarter (FY86) - 18 Craft
Fourth Quarter (FY86) - 5 Craft

with the last delivery occurring in July 1986.

Team Assessment: The NAVFAC schedule portrays a realistic assessment of near term production rates. The long range production forecast is optimistic and is not achievable without the improvements noted in paragraph 6.

5. The team considers that the following schedule is achievable based on demonstrated performance:

First Quarter (FY86) - 12 Craft
Second Quarter (FY86) - 12 Craft
Third Quarter (FY86) - 17 Craft
Fourth Quarter (FY86) - 12 Craft

with the last delivery occurring in September 1986.

6. A review of demonstrated performance indicates Wedtech consistently has not been able to meet planned schedules. The NAVFAC production estimate appears to make optimistic assumptions regarding corrections and improvements in the basic fabrication and paint out of all Waterjet Propulsion Assembly modules. Additionally, the schedule does not fully reflect the demonstrated performance problems with system installation or the teams' anticipation of winter weather impact on production.

The schedule that the team feels is achievable can be bettered, perhaps achieving the NAVFAC schedule, if Wedtech resolves its relationships with vendors, so that work and material flow is not interrupted, as well as improving scheduling of sub-contractor work on outfitting of modules closer to plan. Additionally, if the covered work areas at the watersite are completed and prove effective, the disruptive effect of winter weather will be reduced.

7. In summary, Wedtech remains capable of producing the powered causeways; however, lack of a skilled work force with an ingrained work ethic, and the unmet, but concomitant, increased requirement for middle management resources, have prevented Wedtech from achieving what appears to be reasonable production schedules. Lack of operating capital has impacted supplies from vendors and timely resolution of facility problems. NAVFAC's assessment that the BONNEYMAN load out will not be achieved is realistic.

E E Shoults

E. E. SHOULTS
Program Manager
Amphibious Warfare and
Strategic Sealift Program

Copy to:
NAVFACENGCOM/Code P-3
SUPSHIP, Brooklyn, NY

COPY

5 FEB 86

From: OP-42
To : OP-04

Subj: SECOND SOURCE FOR LIGHTERAGE

1. As you know, we have reduced the size of the strategic sealift program significantly in the FY87 budget and face further reductions in POM-88. In the FY-86 budget, we showed $1.014B in the FY-87 column. We are submitting a budget of only $835K. Because of cost of ownership of our sealift assets, most of the reductions came in the sealift enhancement and cargo offload areas.

2. Particularly hard hit was lighterage. We are stretching out the buy to a point that I have to question whether it is smart to try to establish a second source. -Even after considering our growing pains with WEDTECH. There is enough for two sources in FY-86 (when combined with the Army FY-85 buy), but FY-87 looks to be too small to support two sources without driving unit cost out of sight.

	FY-86		FY 87	FY 88
	WEDTECH	2ND Source	TOTAL	TOTAL
CSP	-	13	4	4
SLWT	18	-	15	4
CSNP	28	28	10	-

3. These numbers include powered causeway sections (CSP and SLWT) for Army, but do not include nonpowered units because Army wants to go to ISO units only. They also want to go the ISO route for powered units as soon as possible. -Probably by FY-89.

4. As you can see, in FY 87 and 88 there are only totals of 19 and 8 powered units which does not seem adequate to support a second source. By comparison, the Navy FY-85 buy was 44 powered units and 39 nonpowered.

5. The purpose of this memo is simply to alert you that we may want to revisit the issue. I have asked NAVFAC to provide me an estimate of the quantities required to make a second source viable. Captain Kelly may bring up this issue during his call on you this coming Friday. More to follow.

V/R

Copy to: OP-424

orig

DEFENSE LOGISTICS AGENCY
DEFENSE CONTRACT ADMINISTRATION SERVICES MANAGEMENT AREA
NEW YORK
201 VARICK STREET
NEW YORK, NEW YORK 10014-4811

IN REPLY REFER TO DCASR NY-GND

11 APR 1986

SUBJECT: Wedtecn Corporation, Contract N62472-84-3116

TO: Commander
Naval Facilities Engineering Command
Naval Construction Battalion Center
ATTN: Walter K. Schroeder, Code 10 (Contracts)
Davisville, Rhode Island 02854-1161

1. Wedtech Corporation, Bronx, New York, is currently performing on Naval Facilities Engineering Command Contract referenced above subject as part of the Sealift Support Facility Program. This contract consists of a base year contract and two activated options totalling approximately $87,000,000.00 in value. Wedtech has recently submitted a proposal for a third option of approximately $58,000,000.00.

2. The base year contract was awarded on 17 Apr 84 without an adequate Pre-Award Survey being performed. A Pre-Award Survey was requested, but sufficient time to perform this survey was not given. The two subsequent options were awarded without Pre-Award Surveys; none having been requested.

3. It is strongly recommended that a Pre-Award Survey be performed prior to negotiations for the following reasons:

a. Wedtech incurred a loss on the referenced base year contract their largest, and Wedtech is incurring a loss on the two subsequent options.

b. Wedtech's financial information shows that the company will incur a loss on their second largest contract. (6 H.P. standard military gasoline engines)

c. Wedtech Corp. has been experiencing serious cash flow problems. The company has fully used its $39 million line of credit. It is now in the process of negotiating an additional $35.5 million line for a total of $63.5, which is expected to be in place by 28 Apr 86. Until this line of credit is in place, there is a mandatory need for Financial Pre-Award Surveys because of Wedtech's cash flow problems.

d. Wedtech was placed on "Reporting of Serious Quality Problems - Method C, D, and E Corrective Actions" effective Apr 86. Wedtech is classified as a Mil-Q-9858 supplier of the above contract. Method C corrective action letter, dated 4 Apr 86, was issued to Wedtech for inadequate procedures regarding Control of Purchases. Two major areas reviewed for adequacy were contractor responsibility and purchasing data. The specific areas of deficiency were Vendor Survey, Vendor Rating, Purchase Order Quality and Technical Requirements, Incoming Inspection, Independent Laboratory Testing, Discrepancy Analysis, Corrective and Work Instructions. Wedtech has until 15 May 86 to reply to Method "C" letter for problem resolution. This action is cause to place Wedtech on the CIP, Contractor Improvement Program in May 86.

e. Of the nineteen active Government contracts, Wedtech is currently delinquent on nine contracts, including the two largest (by dollar value). Of the 10 remaining "non-delinquent" some have had the delivery dates adjusted by con-contract modification more than once.

4. With the information listed above, and this DCASMA serving to provide your agency total contract administrative support, as your eyes and ears, we feel it is in the best interests of the government to conduct a Pre-Award Survey on the most current contract proposal.

5. DCASMA NEW YORK: IN THE FOREFRONT OF QUALITY AND SERVICE.

Don H Hein
DON H. HEIN
Colonel, USAF
Commander

cc:
CAPT T.C. KELLY, CEC, USN
Mr. W. Gordon, DLA-A
Mr. R. Chiesa, DLA-P

WEDTECH CORPORATION
PAS #S3310A64043PN

29 April 1986

PRE AWARD MONITOR SUMMARY

The financial report requested on subject contractor indicates a negative reaction. Primary reason is the bank credit line not being in place at this time. The commitment for an extended period of time is not firm at this time.

Based on the financial information, award not recommended.

ALDO R. BERTOLINI
Pre-Award Monitor

OES PRICE APPEAR UNREALISTICALLY ? ☐ YES ☐ NO N/A

CRIBE ANY OUTSTANDING LIENS OR JUDGMENTS

e per Bidder's letter of 01 April 1986 /s/ Vincent Sullivan, Assistant Director of Contracts

SECTION V – SALES

CATEGORY Letter of 01 April 1986 for backlog as of	CURRENT DOLLAR BACKLOG OF SALES 28 Feb 1986 (a)	ANTICIPATED ADDITIONAL DOLLAR SALES FORECAST FOR NEXT 18 MONTHS (b)
1. Government *(Prime and subcontractor)* The current dollar backlog is to be	$ 95,082,099	$
2. Commercial delivered monthly through December 1987.	$ -0-	$
3 TOTAL	$ 95,082,099	$

SECTION VI – RECOMMENDATION

1 RECOMMEND

☐ a COMPLETE AWARD ☐ b PARTIAL AWARD *(Quantity* ______ *)* ☒ c NO AWARD

2 REMARKS *(Cite those sections of the report which substantiate the recommendation. Give any other backup information in this space, on the back, or on additional sheet, if necessary.)*

1. This Firm Fixed Price Solicitation in the amount of $49,000,000 (estimated) is to be delivered monthly beginning 30 days after date of award and continuing through 390 days after date of award.

2. Wedtech Corporation has been experiencing cash flow problems primarily due to the use of monies for corporate acquisitions. At this time Wedtech is in the process of establishing an additional $35.5 million revolving line of credit for working capital purposes. This amount of financing in conjunction with the resources stated by 31 December 1985 figures should be more than adequate to finance the current dollar backlog and procurement under consideration, if we look to the financial resources as presented in the 31 December 1985 - 10K. From this document Wedtech shows current assets of $105.8 million and current liabilities of only $45.6 million.

3. However, it must be pointed out that Wedtech's method of accounting for revenues and expense is the percentage of completion method. This method allows for the recognition of income as a contract work progresses, even if nothing is physically shipped from the Contractor's plant or designated location. Under this method, current assets may include costs and recognize income not yet billed with respect to certain contracts. Since Wedtech is recognizing income of contracts, which is being reinvested into working capital, the working capital level now stands at $60.2 million. However, again, it must be pointed out in the current assets of $105.8 millio (vs $45.6 million of current liabilities), there are $76.8 million of unbilled costs (net of progress payments).

4. In reference to the above paragraph, the percentage of completion of method of accounting deals with estimates that are subject to uncertainties, the unbilled costs can

If continuation sheets attached – mark here ☒

3 SURVEY MADE BY *(Signature and office)* William Stokes William Stokes Financial Analyst, DCASR NY-GNAF	4 TELEPHONE NO. *(Include area code)* 212/807-3328	5. DATE SUBMITTED 29 Apr 1986

[illegible] 4/29/86

te problems for any company in that they create an excellent picture of the working capit el while the company might be cash poor. This is precisely the case with Wedtech. Moreov the $76.2 million in unbilled cost may include profit which may not be realized under the pontoon and engine contracts. Thus, the working capital figure is not as good as it looks in the financial statements. Specifically, let us look at a component of that working capital figure, namely cash. Cash balances from the financial statements would imply that Wedtech consistently has balances in the $5 to 9 million range. However, the average bank balances are in the moderate six (6) to high six (6) figures, as verified by telecon with Wedtech's bank on 29 April 1986 and on other occassions.

5. More specific about cash, Wedtech has a tremendous debt service cost of its 13% debentures On sales of $117.5 million in 1985 Wedtech paid $11.7 million interest expense or 42.5% on a gross profit of $26.2 million. This factor alone has created a tremendous cash flow problem.

6. Notwithstanding the above and returning to the working capital level of $60.2 million, as presented in the financial statements, it is considered good in relationship to the annual sale volume and current dollar backlog of $95,082,099. Moreover, the working capital is fairly liquid in that the current ratio is 2.32:1 and the acid test is 0.40:1. The acid test ratio at 0.40:1 would not normally be considered that good. However, with progress payments availability on existing contracts as well as the procurement under consideration, this ratio would be considered to be pretty good.

7. If one notes paragraph 3 and be assured that the "new" bank line of $35.5 million is in place, then there would not be any question as to Wedtech's financial capability to perform under this award. But there are two new problems that have arisen. The first being Wedtech's union contract expired on 28 April 1986 although the period of negotiation has been extended to 04 May 1986. The second being that the bank's line of credit target date has now been extende to 06 May 1986, from 28 April 1986 and from 02 May 1986. The inference here is that there appears to be a "wait and see" posture on the part of the bank.

8. From this change of finalization dates, it appears as though as one of the contingencies of the bank loan package is the union labor agreement. If the bank's commitment had been firm or finalized, even to some specific future date, without the constant changing of the target date, there would be a recommendation for a "Complete Award." The bank credit line may be "in-place" within a few days. However, without the bank credit line being in place, we are precluded from making a positive recommendation and, therefore, our recommendation is "No Award" at this tim

WEDTECH CORPORATION
PAS #S3310A65013

20 May 1986

PRE AWARD MONITOR SUMMARY

Financial report, a resurvey of P.A.S. S3310A64043, indicates a reduction in projected sales, which is interpreted by the financial analyst to result in lowered requirement for operating capital. Subsequently the bidder presented satisfactory support for its ability to comply with reduced operating fund requirements.

Wedtech now has an approved Navy Quality plan for the Pontoon Contract. Based on the foregoing the bidders operation is favorably evaluated and the situation is satisfactory with appropriate corrective actions instituted.

Based on the foregoing survey, favorable consideration is merited.

ALDO R. BERTOLINI
Pre Award Monitor

DOES PRICE APPEAR UNREALISTICALLY ☐ YES ☐ NO N,

DESCRIBE ANY OUTSTANDING LIENS OR JU ENTS

None per Bidder's letter of 16 May 1986. /s/ Mr. Anthony Guariglia, President.

SECTION V – SALES

CATEGORY 16 May 1986 letter stating that as of 30 April 1986	CURRENT DOLLAR BACKLOG OF SALES (a)	ANTICIPATED ADDITIONAL DOLLAR SALES FORECAST FOR NEXT 12 MONTHS (b)
1. Government (Prime and subcontractor) the current dollar backlog is	$ 76,846,075	$ Did
2. Commercial to be liquidated monthly through 31 December 1986.	$ 1,119,868	$ Not
3. TOTAL	$ 77,965,943	$ Request

SECTION VI – RECOMMENDATION

1. RECOMMEND

☒ a. COMPLETE AWARD ☐ b. PARTIAL AWARD (Quantity: ______) ☐ c. NO AWARD

2. REMARKS (Cite those sections of the report which substantiate the recommendation. Give any other backup information in this space, on the back, or on additional sheet, if necessary.)

1. This Firm Fixed Price Solicitation in the amount of $49 million (estimated) is to be delivered monthly beginning June 1986 and continuing through May 1987.

2. This review is based on current Financial Statements as of 31 March 1986 furnished to the Securities and Exchange Commission, a copy of which was furnished to us on Wednesday, 14 May 1986, and on a Current Cash Flow Statement prepared by Wedtech and submitted to us Friday, 16 May 1986. Our earlier report dated 29 April 1986 was based on a 1985 year end financial report and did not take into consideration the then available cash flow statement because of its errors. It should be noted that our report made reference to a then pending additional line of credit. However, the current Cash Flow Statement, which also reflects first quarter (Jan-Mar) actuals, projects a lower volume of business in the amount $121,000,000, including this option (rather than the previous $136,000,000), and removes reliance on receipts of cash through an additional line of credit.

3. The Current Financial Statements issued by Wedtech to the Securities and Exchange Commission show positive features; a current asset ratio of 2.63:1, a working capital of $73,888,000 and a net worth of $63,812,000. The acid test ratio is on the low side (0.20:1). However, because the company will be getting 90% of incurred costs in the form of progress payments, the low ratio will not impact significantly the company's overall financial operations.

If continuation sheets attached – mark here ☒

3. SURVEY MADE BY (Signature and office)

William Stokes William Stokes

Financial Analyst, DCASR NY-GNAP

4. TELEPHONE NO. (Include area code) 212/807-3328

5. DATE SUBMITTED 19 May 1986

Reviewed by

5/19/86

4. Based on the current Cash Flow Statement the company can finance its operations with a projected ending 31 December 1986 cash position of $2,300,000. Also, the acceptable financial position exhibited by Wadtech in its current Financial Statements, indicates Wedtech has the financial capabilities to perform under this estimated $49 million option award.

5. From the above, a "Complete Award" is recommended at this time.

MEMORANDUM

TO: File

FROM: erw

DATE: November 9, 1983

RE: Wedtech

Information re the Pontoon Contract:

Tri ~~I~~ have spoken with Raphael Capo, formerly with the White House, probably in Elizabeth Ddes'(sp?) office now with the Export-Import Bank. He ~~The~~ ~~[illegible]~~ could not work with them, but his wife, who is also a lawyer, has been in touch with him. I don't know what role he plays, but in any event, he was ~~is~~ in contact with Don Louis Frerre of Puerto Rico, who is a very powerful and wealthy former Governor of the Island who is a Republican and very interested in securing additional business for Puerto Rico including a portion of this contract. Apparently, Puerto Rico provides for tax-free earnings for funds left in Puerto Rico constituting a rather enormous benefit to those who leave funds there. Withdrawal is as follows: For the first five years, you can withdraw 90% without any tax, the second five years - 75%, third year - 65%. There is however, transfer tax on the funds which are withdrawn. However, this relates only to the funds which are kept there and it is therefore 1/2 of the funds involved in the contract, not all of the funds involved in the contract.

Vice President Bush apparently indicated to Don Louis Frerre that a portion of this Pontoon Contract would go to Puerto Rico because of the need for jobs. Senator Tower indicated a part of the contract would go to the Border Initiative or the Southwest Border Initiative for the same purpose.

The contract is to be awarded under 8a of the SPA Act and Wedtech is the prime potential recipient. However, Puerto Rico has shipbuilding yards and could conceivably do this work as a prime contractor if a particular company qualified.

There is a company known as Lee Engineering which is on the Pacific Coast in the ~~Los Angeles~~ area. A Mr. Lee is the proprietor. He is supposedly a friend of the President's and made an effort for this contract by setting up a subsidiary in Puerto Rico. Apparently, the Navy has already turned him down. Vice President Bush was behind, but it currently aware of the current situation.

The Wedtech people have meet Don Louis Frerre who seems sympathetic to them, according to them.

However, shortly after Lee was turned down, Mark Bragg received a call from first, Lee Engineering, and then their lawyer trying to retain Nofziger & Bragg who said they were not going to get involved for they had nothing to do with the designee for the contract once it was designated that they would then make an effort, but that they were not otherwise involved.

As a practical matter, they are supportive of the Wedtech grant.

There is, however, a man in the SBA known as Dr. Wolfong. He apparently, is very influential and is directly responsible to, although inappropriately so, men known as Grayson and Ted Adams of L A ~~San Francisco~~ who are Univox Company. These people are apparently representatives of the Black community and badly want a piece of this contract and have been very outspoken in saying so.

However, according to our information, Univox was turned down before Wedtech was ever in the picture.

The part of the designation will rest upon an Ed Rose who is at the SBA in New York and is apparently very hostile to all minority groups, particularly Hispanic groups, even though he himself is black. He's particularly hostile to Wedtech.

Another question arises as to whether John is qualified as economically disadvantaged. Apparently, there are people in California and elsewhere who are worth a great deal of money, even more than John is currently worth, who have qualified as economically disadvantaged. The issue is supposed to be whether they were economically disadvantaged at the threshhold stage, namely when they first qualified for 8a or whether they must remain so up through and continuing the time even when a subsequent contract is awarded.

The Asst. Secretary of the Navy by the name of Piot as indicated at Wedtech, is a prime recipient.

However, Wedtech remains vulnerable because 51% of the equity ownership is now with John Mariotta the only qualified minority amongst the owners. That is the subject of other memos and proposals for correction.

The key is to keep the Navy in control of the designee rather than allowing it to go to the SPA.

One of the potential black companies involved in Philadelphia is apparently called Medly Tool & Die and they would be acceptable to Wedtech as part of the awardees of the contract.

MEMORANDUM

TO: John Mariotta
Fred Neuberger
Mario Moreno

FROM: erw

DATE: November 9, 1983

RE: Meeting of November 7th - New York City

ISSUES DISCUSSED:

Procedures by which the transfer of 51% of the equity interest in Wedtech Corporation to John Mariotta can be accomplished.

STATEMENT OF PROBLEM:

Although Wedtech currently occupies an 8a status with the SBA and will do so until January 14th, arrangements to transfer an equity ownership of 51% to John Mariotta are required in order to continue to comply with a minority status requisite for 8a contract grants.

The current status is subject to question because

(a) Wedtech has become (probably) the first company to "go public" and this presumably ends its 8a status or, so it will be argued;

(b) The extension granted by the Regional Director from December 14th to January 14th is contingent upon letters indicating that Mr. Mariotta and Wedtech Corporation are undertaking the transfer of equity to accomplish the minority ownership requirement.

RATIONALE:

The need to continue the 8a status is predicated primarily, if not exclusively, on the potential issue ______ ______ a $400,000,000 contract by the U.S. Navy under the 8a program. Wedtech is a prime recipient, on a merit basis, for the award of that contract.

ISSUE PRESENTED:

The need is to transfer stock-equity ownership from current "insiders" to John Mariotta. None of the other principals of Wedtech qualify for 8a status. The primary person engaging in this transfer will be Fred Neuberger. He will be joined in this ___by___ other insiders.

Because of agreement/ with the underwriter, no transfer of stock is permissible until December 26th. The SPA will be notified of this requirement.

In order to accomplish the requirement, legal and tax considerations were discussed with outside counsel to the Company. An extensive discussion of potential legal and tax problems presented ensued.

In order to accomplish an appropriate transfer of equity, it will require approximately 54 to 55% of the current stockholding to John Mariotta. This is in order to allow him, as a matter of fairness, some margin of stock available for sale when he can lawfully accomplish that, should he choose to do so. This will also accomplish the retention of some portion of stock by Fred Neuberger for the same purpose.

It is estimated that approximately 2/3 of the shareholdings by those insiders who will be involved in the transfer will be required in order to accomplish the above percentage transfer.

Contingencies were discussed, including the potential of the contract not being awarded to Wedtech after the transfer of equity had been accomplished.

All involved indicated a desire to comply with the legal requirements of the SPA and all other legal requirements involved.

RECOMMENDATIONS AND COURSE OF CONDUCT:

(1) The attorneys will undertake to prepare a proposal that will accomplish the transfer of equity in a manner which will be both lawful and cognizant of the tax liability potential involved.

(2) The Company will continue its vigorous efforts to secure the contract under its current and existing 8a status.

(3) The Company will notify the regional Director of SPA of its intention to implement the transfer of equity after December 26th and prior to January 14th, should it be required.

(4) The Company will provide to the original Director of SPA copies of the minutes of the last board meeting

relating to this subject.

MEMORANDUM

TO: File

FROM: erw

DATE: November 17, 1983

RE: Wedtech - Pontoon Contract

Concerning the Pontoon Contract from the Navy -- Essentially that the Navy make the designation of Wedtech and that the contract be let?? before January 16, 1984. The persons who have to be involved in letting the contract are Sanders and Piat, an undersecretary of the Navy. Sanders is chief of SBA.

Beyond that, any portion of the contract would be enough to protect us before January 16, either if we're only exploratory such as a set of six pontoons or something of that nature. In other words, the object is to get a contract which is a ___________ subject to definitization or being made more definite.

The equity transfer is probably essential because we are subject to inquiry even now as to the current status. The only reason that Neglia granted the extension is apparently because Wedtech is such a jewel in the 8-A program and they wanted to protect them beyond December 16, when they expire. Actually, apparently, they expired October 31, but I don't know what accounted for the extension to December 16. There is a question as to whether the extension would withstand challanege in view of the fact that we do not have 52% ownership of the company and a minority stockholder and do not have 51% control of the voting on the Board of Directors.

A way to deal with the latter problem which I suggested, was adding someone to the Board. They came up with Benito Texidor, a man in his fifties from Puerto Rico who has 8-A status, is very highly regarded and is considered a first-class person.

Mario should immediately commence efforts towards certification as an 8-A appropriate designee. His financial status should not be a bar, since his actual worth, separate from his Wedtech stock worth, is less than the half-million dividing line.

cc: Mario Moreno
John Mariotta
Fred Neuberger

e. robert (bob) wallach
lawyer - counselor
TWENTY-SEVENTH FLOOR RUSS BUILDING
235 MONTGOMERY STREET
SAN FRANCISCO, CALIFORNIA 94104
TELEPHONE (415) 989-6445
TELEX 470367 FWK

SPECIAL TRIAL COUNSEL TO
FELDMAN WALDMAN & KLINE

November 28, 1983

John Mariotta
Fred Neuberger
Mario Moreno
Wedtech Corporation ✓
595 Gerard Avenue
Bronx, NY 19451

CONFIDENTIAL

Re: Meeting with Mark Bragg - November 22, 1983

Dear Colleagues:

I had the pleasure of a warm meeting with Mark Bragg. He reviewed our current agendas to be sure that we were "up to speed" with each other.

The subjects discussed were:

1. The causeway (pontoon) contract;
2. The twenty horsepower engine;
3. The Mitsui connection;
4. The Netherlands connection.

I brought him up to date, as much as I could, on the Scout and the French potential.

We are working well together and this is just an informative, brief note to keep you abreast of this development.

By the time you receive this letter, we will probably already have spoken.

Warmest regards,

e. robert (bob) wallach

erw:pf

MEMO TO: WEDTECH FILE

FROM : erw

DATE : DECEMBER 7, 1983

Commencing around November 21st and a few days before that, I have been involved in the following discussions and want to recount them generally for my own memory. This is for the purpose of maintaining my own files in the event there is any subsequent litigation, administrative hearing or other form of adversary proceeding in which Max will be called into play as consultant and a policy adviser to Wedtech. Our relationship is that of lawyer/client in this instance and both the attorney client privilege and work product privilege should envelope this document. These thoughts are intended by me for the purpose of refreshing my recollection and assisting me in the adequate preparation of any defense or position statement for a position of advocacy on the behalf of Wedtech and for no other purpose.

The Pontoon Contract is the subject of considerable political pressure. The Vice President has apparently 'promised' a portion of this contract to Puerto Rico which is badly in need of it. They are dealing with a man there called Don Louis Frere, who is a prominent Puerto Rican Republican, Former Governor of Puerto Rico. It's all quite above-board but important politically.

In addition, Senator Tower of Texas has promised a portion of this contract to the southwest border initiative, which is essentially an urban enterprise zone type of development as I understand it. All again, perfectly correct, from what I can see. But, part of the political process.

The problem is presented by a company called Univox, which is a black company out of Los Angeles has apparently dominated much of the 8(a) program for many years. Perhaps since its creation. They apparently have quite a bit of influence with the current director of the SBA 8(a) program, Henry Wuolfong and also a man named Joe Bennett who works in that office. Mark Bragg advises me, in a later conversation, that Joe Bennett is really alright and we should not have to worry about him. Nofziger and Bragg represent Univox, independently of Wedtech, and are involved with them on a number of basises and have been for quite some time. One of the basis they are currently involved in is an effort to get them involved in the Netherlands Program called MIF which has also been discussed at Wedtech. Univox does not qualify in any way for this contract and should not be in consideration, particularly after the Navy letter sets forth the qualifications which are required which really should only apply to Wedtech and so the 8(a) company in the country that has their capabilities.

There is another black outfit in Philadelphia by the name of Medley Tool and Dye which apparently might also be included at some point, although it seems remote. It's an 8(a) company and apparently has some ability.

(Keep in mind that this Causway Project is part of the Seashed Program which is much larger - something like 1.___ billion dollars).

I'm advised that a man named Audray Rogers of the SBA New York regional office will be meeting with Joe Bennett and with Wuolfong on this 8(a) status. However, I am advised not to be apprehensive about this although I remain so anyway.

Our effort is to obtain this contract in some respect, even if its only to do prototypes before the end of the year on a theory that once it is obtained we will be in the best shot to obtain all of the contracts.

The problem on our current 8(a) status is that John does not have 51% control of the company. Why this was not anticipated when we went public, I frankly don't know and it causes me some concern in terms of our representation. I doubt if the squadron office knew about it. John apparently didn't raise it. I don't know why Steve Dellinger was not consulted and I may just be speculating as to the problems. In any event, it could happen. Now the problem is if we don't qualify, how do we get the Causeway Contract? We are currently operating on an extension until January 16th given by Niglia in Philadelphia. Whether or not that extension is valid remains to be seen.

Tim Sullivan advises me that some time ago Wedtech sent in a request for an extension of its 8(a) status said to be done a year before the expiration and he couldn't remember whether anything had ever been done about it. He said that he thought maybe 18 months had been extended. I asked him what

Neglia's action amounted to and whether that was in response to it and he said he didn't think so. He was pretty vague on it. It was the first time I began to develop some doubts about his ability to do the job for us.

In any event, I asked him to find out about it, find out where we were, find out whether or not it restarts the 7 years and just what this New Orleans convention discussion meant. He indicated that in New Orleans, all of the 8(a) people got together and decided to be quite liberal about admitting 500 new 8(a) programs and granting extensions.

The problem is that if we don't qualify under an 8(a) status, we're not going to get this Causway Contract. If we do qualify for the extension, its going to be subject to challenge. The only solution is to change ownership and give it to John, which involved enormous stock obligations and considerable tax potential liability to Fred Neuberger which has been outlined extensively by Arthur and Ira at a meeting which was attended by Howard and a previous memo has been presented on that.

Sullivan also raised the issue of whether or not John is Chairman of the Board with vetoe power over every decision might not qualify as having adequate control. This would relate to control rather than equity. I doubt whether that could be done and even if it were, I wonder whether or not it has any effectiveness in view of our public standing.

He said the only way to get an extension was through a bridge letter which has to come from the main office of SBA and not from the regional office which is why he though Neglia conduct was not a response to our request. Theoretically, that request is still pending and is viable it might be a way out for us. Always look for simplicity.

I am advised of the following information: Secretary Piot's office from the Navy with Richard Ramirez writing the letter will issue a letter which will set out qualifications that really apply only to Wedtech. Delivery will be to the east coast first and will include elements of the propulsion as well as the non-propulsion portions of the contract. In other words, it should be terrific.

The answer then is to get a letter back to the SBA specifying Wedtech and apparently Sanders has already decided to do that. If it goes as scheduled, we should have the contract by the end of the year. We will see.

The Twenty Horse Power Contract is still pending. Mario said that a request for a reduced bid is customary but he is concerned because that's the way they end up advising the people they want to get it of what our low bid is and then they come in lower and they get it. It's apparently pretty corrupt. However, Jay Scully has been in conversation with Mark Bragg, and is apparently very alerted to this problem. I had discussed it with Mark extensively and asked him to really undertake an effort to be sure that enough spotlight is focused on this decision so that people might be reluctant to fool around with it. Apparently there is still plenty of resentment towards Wedtech in St. Louis for having defeated Keenan and his troops. Keenan is still around and apparently exercises considerable influence.

Everybody believes there is alot of corruption there. The question is whether or not an investigation should be initiated.

Fred says we don't have anything to worry about. Ira is worried. This is an important contract.

The Six Horse Power Contract is ours, however, we have to have first article delivery in March and Tim expressed some concern about it. I have put this in a memorandum and we will see what happens.

We lost the Three Horse Power Engine to Continental Teledine when we were suppose to get it. I don't know anything about what happened there but apparently that's a dead issue according to Mark.

We had discussions regarding Mitsui and I don't really know what's happening there...but hopefully nothing for now. I have already covered this in a memorandum with John.

The French contract just doesn't seem to be going anywhere and I'll just remain diligent on it.

I met with John, who picked me up at 6:00 Monday morning the 28th and stayed with me until 9:00 and then we went to Howard Squadron's office about 9:30 to talk. We discussed my options and the figure of 50,000 shares was discussed. John said 25 - 50 but we settled pretty much on 50. I've asked Morton Siskind to do something about it. In addition to that, the agreement seems to be proceeding and I expect to have both of these done by the end of the year.

On a referral fee from Squadron I discussed it with John and with Arthur Ziskind and with Howard. 20% has been agreed upon. Howard is still uncomfortable about doing it simply on the basis of hourly rate. However, he said he and Arthur would talk about it. Arthur had some ideas and said he would discuss it with John and get back to me. He appeared to be diligent in performing this. I am going to have bank accounts set up in New York and these funds paid into New York accounts so that I begin developing some professional financial base there when and if I need it...as for example, purchase of a condominium or something of that nature. Those payments should amount to about $2,500 a month.

February 21, 1984

MEMORANDUM

TO: Wedtech Files

FROM: e. robert (bob) wallach

RE: Summary

I. Discussion of trade potential in France; French speaking North Africa; French entry to the Middle East; and (French contacts in Columbia, Venezuela, Peru, Bolivia, Brazil)

II. Decision to interview, with a view towards retaining, counsel for government contract litigation. Appointment to be arranged. Tim Sullivan to be invited.

III. Discussion of the causeway contract. Emphasis upon competency of Robert Saldovar. Number 2 person in the 8a program in Washington, D.C serving under Wolfong. (Saldovar was very instrumental in opposing Keenan on other matters.) Causeway contract should be reassigned from Joe Bennett to Saldovar.

If there is an opening in the top slot in the 8a position at SBA, Saldovar is the man. Transfer of the causeway contract to him would facilitate and guarantee its efficient undertaking without bias.

N.B. Medley turns out to be a one-man operation, in effect a front operation. A facility must be acquired by them in order to meet their obligation under the contract. While they have made an offer, there is no guarantee that they can obtain the facility. If they do not do so, the Philadelphia group will seek to bring in one or another of two other black companies to do the job. Apparently this has all been confirmed by Advance Marine.

IV. Canut contract: Larry Shorten will be returning to Paris for additional meetings. I hope to provide complete names and addresses in France.

V. I will interview David Shorr without any commitment or invitation to go beyond the initial interview. He is the Executive Vice President of RCA and will be retiring and is interested in working with a "minority company." Howard Squadron plays tennis regularly with the General Counsel of RCA and can also provide information about this individual.

In addition, I will initiate a discussion with Pendleton James regarding possible acquisition of internal management. This is because of his relationship with our good friends.

However, we need to emphasize that quality control and internal management is already a growing development, and accomplishment, at Wedtech. Quality control is so important that the club manager is the former quality control person and the individual to whom the causeway contract will be assigned is a quality control person.

In terms of reputation with the financial community, Wedtech, in less than 12 months, has secured $30 million in funding through a stock offering; $20 million in a bank line of credit (Bank Leumi); and $40 million is on the board in a stock debenture offering. In addition, there is an available $5 million from the City of Mount Vernon for development of the R&D facility. In other words, $95 million in less than 12 months.

N.B. The stock dividend share offering is to be made through Bar, Sterns, et al. (A partner of that concern is Phil Schaefer, a close friend, and one of the most active financial fundraisers for the Mondale campaign, in California; he is located in San Francisco).

VI. Trade missions: Mitchell Stanley, of the Department of Commerce, will be visting the Wedtech plant probably on Friday, March 2. A packet of information will be sent to him and he will call if he can come. He is attending a Korean trade mission to New York during that period of time. (Mitchell Stanley has already been placed in touch with Wallace Fujiama in Hawaii, whom he knows from contacts with the White House in the past.)

VII. Packets of material for a potential campaign stop by the President are prepared and will be directed, by mail, or hand delivered.

VIII. Coating process description will be provided for review by appropriate interested persons.

IX. U.S. trading company: I will bring myself up to speed on the Wedtech involvement with this entity -- Nofziger & Bragg. I will hold discussions with an individual I know who will be available for private employment or consultative work in mid-1984.

X. Arrange preliminary interview with D. G. regarding public affairs and public relations.

XI. Arrange for videotaping of Dr. P. in New York City.

XII. Forego discussion with patent lawyer for the present except for possible interview, without identification of the company, with the patent lawyer in New York City whose name I have received.

cc: John Mariotta
Fred Neuberger
Mario Moreno

e. robert (bob) wallach
lawyer - counselor
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SAN FRANCISCO, CALIFORNIA 94104
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SPECIAL TRIAL COUNSEL TO
FELDMAN, WALDMAN & KLINE

March 2, 1984

John Mariotta
Chairman of the Board

Fred Neuberger, President

Mario Moreno, Executive
Vice President
WEDTECH CORPORATION
595 Gerard Avenue
Bronx, NY 10451

PERSONAL & CONFIDENTIAL

Dear John, Fred and Mario:

I write this at a time when I feel very close to you but have been, physically, too far away.

As you know, the conflict between my two "major East Coast clients" has been at its height. We are currently in the process of concluding Ed's hearings before the Senate Judiciary Committee. I'm delighted to say that almost a month of very hard work, and careful preparation, has produced a hearing which is noted for its dullness, thus depriving those who sought to oppose Ed's confirmation, of any opportunity to criticize him.

We follow the same format as I do in trial. By striking hard at the beginning, and anticipating the weaknesses, we were able to overcome them before they even began. It is a wonderful feeling; he is a fine person and will make an outstanding Attorney General.

At the same time, these have been momentous days for Wedtech. I see much more than our victory in the "Causeway" contract. I see a whole new attitude and philosophy for the company emerging. We are acting in a way in which we should in demanding the kind of technical and business respect which you deserve.

As with Ed, our only refrain during the course of his excellent performance during yesterday's hearing,

John Mariotta
Fred Neuberger
Mario Moreno
March 2, 1984
Page Two.

was to urge him "don't get cocky". "Stay humble." The same advice applies to us. Much of what has been accomplished has been because of who you are, your enormous dedication to the company and to the community, and your obvious dedication to a quality product. Those are rare combinations of qualities in this day and age (tragically).

I truly regretted missing the party at "Tavern on the Green" because I knew it would be a moment of very sweet recognition, which you all richly deserve. I would have liked to have been amidst those extending their warm wishes.

I will also not attend the President's dinner at the Waldorf-Astoria on March 6. The hearings have gone so well I plan to return to San Francisco, in a continuing effort to try and balance my responsibilities on both coasts. I was invited by George Klein, not realizing that you were also planning to attend.

My thoughts are with you, as I'm sure you know. It has been a fascinating tenure together, and I know it will only continue to grow, both in the level of our accomplishment, and the depth of our friendship.

Warmest personal regards,

Bob

e. robert (bob) wallach

erw:pf

March 3, 1984

MEMORANDUM

TO: Wedtech Files

FROM: erw

I. Contact Tim Sullivan promptly and discuss his current status with him.

II. Contact Howard Squadron and Arthur Ziskind relative to Mike Kleinman. Praise Jeff Rubin. Note that they are now up to $300,000 a year in legal fees to the Squadron office. This includes the debenture in the spring or summer of this year. The bank Leumi loan/line of credit for $20 million is stalled. They are planning to go to Israel in about a week and would like Howard to go with them. (This memorandum is the result of a lengthy conference on Sunday, April 1.)

III. Causeway Contract. Through the process of extensive negotiation, they have achieved the reinsertion of options for the future. However, the price of $24.3 million is fixed and they will lose approximately $4 million on it. The question now is whether they will receive business development funds from the SBA which will allow them to convert that into a profit rather than a loss. They will make up their loss, presumably, on awarding of the future options to them for additional construction over the next five years.

I will talk with their lawyers and representatives here in Washington.

IV. Fire Pumps Contract. This is a contract for fire pumps from the U.S. Navy; approximately 5,500 of them over the next five years. They are dealing with Admiral Samsome in the Procurement Office of the U.S. Navy and this is to be an 8-A contract. There is one other company involved but they are now being evaluated for the contract as well. This is a matter which requires close attention.

V. Sterling Engine. There is a company in Albany, New York called Mechanical Technology, Inc. or MTI which manufactures the Sterling engine which may be a real breakthrough in terms of light weight engines. They are dealing directly with Senator D'Amato and have as a member of their staff a former Washington type by the name of Robert Lawrence.

They have invested about $180 million in R&D of which about $100 million was advanced by Ford until the automobile industry went bad a couple of years ago. Ford owns 6% of this company. The stock is currently selling at 3-1/2 down from 20. They do about $60 million worth of business of which $30 million is in R&D and $30 million is in sale, mostly quality control equipment. This significant difference in their engine is that first of all it uses no oil but works on air bearings and can go up to about 50,000 miles.

It's a 6 hp engine. Most 6 hp engines weigh about 85 lbs. or about 14 lbs. per hp. This one will weigh about 4 lbs. per hp. It's also very quiet, gives off little heat making it much more difficult to detect.

Since the future of military and other uses for this is for speed and the use of helicopters requires light equipment, their engine has substantial potential. This is also probably a better engine than the usual electrical power engine because it operates on the air bearings. The other thing is that it generates power because it has an armature working as well.

They have already received permission to negotiate with the People's Republic of China and apparently will be travelling on the trip to China upon which I know others who will also be travelling in early May.

This is not competitive with the Wankel which has greater durability and is also a multi-fuel engine. It is now in the second phase of diesel pump. It is light and over the next 10 years there is a potential for $200 to $300 million worth of pump as the government attempts to redo all of its reliance upon pumps to go to these newer ones. It will also allow full use of the Israeli-Carmo facility and the remaining one-half capacity in the current building in the South Bronx being used for pump construction which was not utilized when we lost the 20 hp contract.

Wedtech is also entering into an arrangement with Wankel in Germany and is investing 1.5 in R&D funds for a joint venture with them for the development of that engine for small uses.

VI. Fuel Tanks. The Congress has already approved the complete revision of M-113s in the world or 50,000 of them at about $5,000 over the next number of years. The number of years is unknown. Because Wedtech has its complete robotic facility, it is in the best position in the country to provide the lowest cost. It is trying to get this contract 8-A through the Tank Command and has the potential to do so. The Wankel is a better engine horsepower for horsepower to the Sterling but does not have the 50,000 mile longevity that Sterling has. The Wankel essentially is 1 hp = 1 lb. which is superior to the Sterling. In that respect it also has a lower rate of repair and since the Army will now be moving very rapidly and want lighter equipment, the engine is still highly viable.

VII. Robert Saldovar. Saldovar has been offered a position in San Francisco with the SBA which he would very much like to have. This will, however, remove him from Washington and so leave the Washington office entirely in control of the people from California and Pittsburgh. He would stay in Washington if he could have Wilfong's position which would require Wilfong moving up.

All the above matters to be discussed with counsel and Washington representatives.

MEMO

TO: EMIII

FROM: erw

RE: WEDTECH

DATE: 18 OCT 1984

The completion of the first "pontoon" in the major program of the U.S. Navy to provide maritime conveyance for the Rapid Deployment Force is to occur 4 or 5 days before election day.

It will occur with a "christianing" in the South Bronx. That is to be a major media event. This is not only the completion of the first pontoon by an 8a company, within schedule, and under very difficult contractual circumstances, but marks a major event for the South Bronx, the Hispanic community in that area, and a major emphasis upon the President's " urban enterprise zone" concept.

Apparently, representatives of the Navy, SBA,and congressional (Republican and Democrat) personage will be in attendance. Congressmen Bob Addabbo, Biagi, Senator D'Amato, etc., are included, as well as New York City dignitaries. I frankly don't know the precise details.

In addition, Wedtech is the prime U.S. contractor for a major portion of the newly announced increased purchases from the State of Israel for U.S. military programs. This is an arrangement separate and apart from the pontoon contract, but another indication of the success of the 8a program as it is represented by Wedtech; the ability of a minority initiated company to "mature" into full competition in the private sector.

The suggestion is that you make an appropriate campaign stop to emphasize the variety of obvious goals of the Administration, including the tie-in between the American minorities and the State of Israel, U.S.-Jewish community, etc.

The contact person at Wedtech is Mario Moreno at (212) 292-9310 or (212) 993-0500.

erw:pf

MEMO

TO: Mario Moreno, Executive Vice President

cc: John Mariotta, Chairman of the Board
Fred Neuberger, President
Larry Shorten, Vice President & Treasurer
Tony Garaglia, Senior Vice President

DATE: 6 November 84

RE: The Options

This memorandum is largely unnecessary but is designed to give even more emphatic emphasis to the need to remain focused upon the acquistion of the options to the Pontoon Contract. I know there are a variety of equally demanding priorities currently requiring the focus of the Company's executive staff.

Nonetheless, we all understand that securing the options is the essential economic underpinning for the Company in its manufacturing capacity for the next three years and, hopefully, beyond. I know that you are directing your attention to the purchasing problem. Everything must be done to eliminate any internal criticisms of our procedures that might interfere with the award of the options.

Beyond that, if we can make a determined effort to conclude the options negotiations by the end of the year it will go a long way towards reassuring the public of the Company's vitality and will provide us with the tangible evidence of success that is much more commensurate with what is truly going on in the Company than the current price of the stock reflects.

I know how aware of all of this you are, and I hope that everyone will assist you in finding the time and energy to direct your attention to this accomplishment.

Dictated: 22 Oct 84
Transcribed: 6 Nov 84

erw/sts

MEMO

TO: John Mariotta, Chairman of the Board
Fred Neuberger, President
Mario Moreno, Executive Vice President
Larry Shorten, Vice President & Treasurer
Tony Garaglia, Senior Vice President

FROM: erw

DATE: 6 November 84

RE: Stock Price

PERSONAL & CONFIDENTIAL

Following up on my conversation with Mario on Monday morning (22 October 84) at breakfast and recognizing that I had to leave before John was able to fight his way through traffic and arrive, let me repeat, with some urgency, the suggestion that General Ehrlich and Congressman Biaggi and/or his son be invited for a full review of the current plant, its facilities, and current undertakings.

It is essential that they understand the importance of doing nothing to depress the current price of the stock in January of this year. A cooperative effort is needed to ensure that any substantial sell-off of the stock does not occur. A further weakening of the stock is both inconsistent with the actual progress of the Company and harmful to our continued ability to project the kind of strong economic image which we require in government, in the banking community, and on Wall Street. It is just too difficult to explain our progress in other areas if the evidence of "insider" sales seems to contradict the success of the Company in other areas.

I urge an early meeting with them which includes a period of time devoted to quiet conversation so that there is a full communication back and forth as to the current status and future progress of the Company. Congressman Biagi's interest is of course as a member of the law firm which is involved in a portion of your representation as well as a person who is undoubtedly interested in the accomplishments of the Company in the Bronx and its overall benefit to national defense and as the leading exponent of the success of the urban enterprise zone concept.

Dictated: 22 Oct 84
Transcribed: 6 Nov 84

erw/sts

MEMO TO: JOHN MARIOTTA
FRED NEUBERGER
MARIO MORENO
TONY GARAGLIA

FROM: e. robert (bob) wallach

DATE: 12 NOVEMBER 1984

As we discussed, this is a draft of the letter. I'm sure you wil be able to provide significant improvement.

As we discussed, a private meeting with Captain D. should be arranged at the Company as soon as possible. A candid discussion with him along the lines which we discussed in detail by phone should then ensue. A emphasis upon candor is in order. He may have had some disapproval of the company when he came, but he has certainly seen the effort that has been produced since then. There were problems in purchasing and the Company has made a major effort ($85,000 worth) to upgrade. The paperwork is an enormous and complicated task and every effort is being made to conclude it but it should not be tied into the onset of the options agreement, even if he did have a bad experience with Jet Boat.

Finally, a subtle but explicit statement to him of the circumstances which produced the criticism of the purchasing contract should be disclosed to him. It should be done in a way which indicates that you are thoroughly aware of the fact that you could have done it in other ways, with much more volatility,(?) but chose not to do so. Generally speaking, indicating to him that you both have the same ends in mind (as Fred indicated), and hopefully with its implicit suggestion that if he wants his record to look good, obtain a promotion, etc., that by working with you, and your working with him, that is the most efficient way to achieve everyone's common goal.

He should be aware of Wedtech's general ally structure. He doesn't have to know it in detail. The fact that we have it, and his awareness of it, ought to be gently indicated so that he understands that we will view favorably with all we know, his efforts to legitimately conclude this agreement and fulfill the Navy's responsibilities to the public.

Page Two..

We're not asking for any favors. We're simply asking to be treated fairly and particularly, not as though we were a minority company (which, of course, he would deny anyway).

We should talk after this meeting. Based upon what his reaction appears to be, and your interpretation of it, I would think it appropriate to contact Saldavar and then decide about Piot.

I would show him a draft of the letter but indicate to him that while you are not sending it, pending your discussion with him, you really are under very strenuous pressure to send it.

The pressure arises from the fact that you are a public company, with fiduciary obligations, and if you don't "create a record" of insisting upon the rights of the Company with the Navy, you might well be subject to personal criticism. He will understand that kind of rationale and it will take the onus off of each of you and put it on your corporate position and your obligation to the public as a public company. He may well even advise you to send the letter as a way of facilitating his own efforts internally on your behalf. If he doesn't suggest that, you might suggest to him that that could work just as well.

One final thought: You might want to have a private conversation with Saldavar on this subject as well.

Good luck.

erw:pf

DRAFT LETTER

TO: MR. PIOT

It has once again become very important to draw your attention to a matter of grave concern to this Company. As of this date, negotiations for the options (described in detail and with proper description) have not commenced. You may recall that when the original contract was negotiated, it was anticipated that these negotiations would commence within thirty days of the signing of that agreement. Thereafter, that agreement was modified to provide for a sixty day period.

We are currently being advised that the negotiations cannot commence until first article approval. That is interpreted to include the full compliance by Wedtech of all substantiating documents. It is our current intention to deliver three articles by December 3rd. We remain optimistic about our ability to conclude the major bulk of the paperwork by November 26th.

As you are assuredly aware, the acomplishment by Wedtech of the conclusion of the first articles in the last six months is a major technologic achievement. We have devoted our full energies to that accomplishment. In this period of time we have been required to acquire almost $25 million worth of goods, (to devote x number of man hours, number of personnel, number of dollars, etc.).

In view of these accomplishments, we find it very difficult to understand why the negotiations for the options have not commenced. Our original agreement to the contract price of (insert) incorporated our reliance upon obtaining the options. As a public company, we believe that our stock position has been adversely affected, and that there is the potential for even greater adversity, because the full complement of the contract has not been accomplished. A successful conclusion of the option agreement will have an obvious beneficial effect upon the company.

We recognize that there are certain areas in which the Company has been asked to improve its procedures. We have undertaken enormous and effective steps to accomplish that (describe). Quite frankly, we do not see a necessary relationship between the negotiations to conclude the option agreements and the current demands upon us.

We are aware of the fact that other companies (indicate) have not been held to so rigid a standard. We are also aware of the history of this contract and have no intention of repeating the conduct of Jet Boat in its failure to provide adequate documentation to the government. Similarly, we think it inappropriate to be held to a more rigid standard than is customarily applied because of the failure of another company to perform.

We intend no criticism by raising this issue with you. We understand that there are legitimate concerns for the successful conclusion of our work efforts. At the same time, we ask you to focus upon the company's legitimate interests in accomplishing the conclusion of the contract, including the options, as it was originally intended by all parties.

We have expended our total energy and commitment to this important project. We request that the options negotiations begin promptly with a view towards their conclusion by the end of year. The timing is of critical importance to the company. We believe that our efforts, the quality of our work, and the original intention of all who entered into this agreement require an earnest good faith effort to conclude these negotiations by December 31st.

We await your response. Thank you very much for your consideration.

Very truly yours,

MEMO TO: JOHN MARIOTTA, Chairman of the Board
FRED NEUBERGER, President
MARIO MORENO, Executive Vice President
LARRY SHORTEN, Senior VP-Marketing
TONY GUARIGLIA, Senior VP-Finance

FROM: erw

DATE: 10 DECEMBER 1984

Dear Colleagues:

I'm dictating this memorandum even before leaving the Grand Hyatt. It was a terrific breakfast-brunch meeting. I really enjoyed not only our interchange but watching the five and then four of you inter-relate. It was one of the best meetings we've ever had in terms of personal interaction.

Subjects:

1. Options: I will expect to hear from Mario very shortly with information concerning your position presented to the Navy. As I understand it, you will give consideration to accepting their inquiry to double production in exchange for a contract price which you feel appropriate and in exchange for any other considerations that you think are necessary in order for the company to undertake the contract economically. Just be sure to give the Navy people sufficient information to justify their returning for increased authorization or to approve the purchase price which you suggest. Also, keep in mind my conversation with you as to the current differential and the possibility of dividing it.

2. Stock sale: There is nothing further to say about this. It is essential that the agreement we discussed be concluded, hopefully by the time you receive this memorandum. The arrangements which protect John and the 8-A status, and also insure that the price will not be demolished in January, are of importance which is self evident. Let me know if there is any difficulty, please.

3. Coating: As I listened to that conversation, the following three subject areas focused in my mind:

(a) The issue as to reliance upon "Pinkasov's help" for longevity seems to be different than we had previously understood. The fact that the process can be understood by others who are given the information is both a relief and a source of great concern. The question of security is still paramount.

(b) The question of internal operation on a daily basis is one which apparently continues to be a problem despite's John's best efforts and his own expression of concern. It seems to be divided into two subparts: (i) day to day operations to ensure efficient and diligent performance by employees and (ii) security supervision. While I hear John's comments that we should leave "well enough alone", or "not rock the boat right now", (I don't remember which phrase he used), the question remains as to the most efficient operation. This is not only a question for internal management but, as Tony pointed out, also for defense against any possible criticism by outsiders.

(c) The question of security in the event that a contract is signed. As I indicated, right now there has been no reason for Pinkasov to express any agitation about leaving, or for anyone else to try to leave with the process in their possession for another to produce, because we have nothing concrete. Once that occurs, questions of concern, internal management, loyalty, are all going to be paramount.

All of this leads me to ask of you--is there someone within the five of you who should be involved in the coating process in addition to John? I ask this only because it appears an acknowledgment by John that the entire undertaking may require even more involvement than one person can provide. It is also important because it is essential that John not be so immersed in the coating process that he is not current and involved in the decision making process in all other aspects of the plant's operation. I'm hopeful that your Monday meetings have largely resolved that area of former concern.

4. General Comments: I know you may think I am a bit of a stickler on this but there were two areas of discussion at the table which concerned me. They concerned me because they were in a public place. The meeting was wonderful and I love the Grand Hyatt for brunch. My only concern was whether our meetings should be conducted in private "in family".

Those two areas were:

(a) Larry and Tony's comments concerning their own involvement in the original stock offering.

(b) The comments made by others earlier on about the ability to "stop" a process initiated by others.

On the former, as a lawyer, there is an absolute privilege as to anything we've discussed. However, the circumstances of such conversations are not otherwise privileged and it is a source of great concern to me that all of our conversations be conducted in the aura of that professional right.

As to the second subject, the more power we have, and the more we are confident of our resources, the less we should have to say about them. The subject is not our ability to do it, but actually doing it, without any expression of it being done. This is particularly true if we are not confident of the sources to whom we're speaking, and in this instance, it is regretable, but I reluctantly also agree, that the source involved was not reliable.

As we grow, it is my concern that we be even more cognizant of the fact that the bigger and better we become, the more vulnerable and enviable a target we are. Individuals, especially bureaucrats, who can see a way to make their own name, or advance their own reputation, at the expense of Wedtech, will do so. The goodwill which surrounds Wedtech, as we discussed in the past, begins to erode in direct proportion to Wedtech's success.

Once again, my sincerest thanks to you all for meeting with me on Sunday. It was a very good meeting in every respect. I can't tell you how much I enjoy the personal comraderie as well.

P.S. I almost forgot one final subject: Israel--If I receive the information from you, as soon as you can get it to me, I will make that phone call and then coordinate to see whether we can produce any results before the end of the year.

erw:pf

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SPECIAL TRIAL COUNSEL TO
FELDMAN WALDMAN & KLINE

November 4, 1985

James P. Jenkins
Executive Vice President
Transworld Group, Ltd.
1707 L Street, N.W.
Suite 1000
Washington, D.C. 20036

Re: Wedtech Corporation

Dear Jim:

I'm dictating this letter from Vienna, via my San Francisco office, because the matter is that important.

I had a very important conversation with a close friend of mine here in Vienna relative to the "options and helicopter contracts." You should be able to figure out who this individual is.

He indicated to me that he is very willing to initiate a direct conversation in an effort to "spring" the options before the end of the year and to reinvigorate the helicopter contract.

I think it is very important that we be completely up to date in terms of a positive memo so that we can inform any individual who is interested of the merits of our position. It should be brief and accurate and can emphasize the economic and, consequently, political implications involved. The individual who will receive this memo will be very sensitive to those considerations. You should be able to figure out who that person is, as well.

I will return to Washington on November 9th or 10th. It is my hope we will meet shortly thereafter. I also plan to go to New York the early part of the week, just as soon as we can get it coordinated.

You will receive a phone call concerning this matter. I will try to get the name of the person who will call you in advance, but he will identify himself in any event.

Best regards,

e. robert (bob) wallach

erw:pf

cc: Mario Moreno
Tony Guariglia

AFFIDAVIT

SOUTHERN DISTRICT OF NEW YORK: ss.:

MARIO E. MORENO, being sworn, states:

1. In 1983 and 1984, I was the Executive Vice President and a member of the Board of Directors of the Wedtech Corporation, formerly known as the Welbilt Electronic Die Corporation.

2. In or about early October 1983, I learned from Steven Denlinger, head of the Latin American Manufacturers' Association ("LAMA"), of a potential Navy contract for the construction of pontoon causeways. I understood that the value of this contract might be several hundred million dollars over a period of several years.

3. Upon learning of the pontoon contract, my fellow Wedtech officers and I decided to actively pursue award of the contract through the 8(a) program for small disadvantaged businesses administered by the Small Business Administration ("SBA"). At this time Wedtech was in the 8(a) program and was working on ways it could keep its 8(a) eligibility.

4. Our stategy for obtaining the pontoon contract included the active use of a number of Wedtech consultants and contacts within and without the federal government. Some of the consultants and contacts used by Wedtech in connection with the pontoon contract included: Congressman Joseph Addabbo,

Congressman Mario Biaggi, Senator Alphonse D'Amato, Steven Denlinger, Mark Bragg, E. Robert Wallach, General Bernard Ehrlich, General Vito Castellano, Richard Ramirez, Peter Neglia, and H. Robert Saldivar. I am aware of the activities of these consultants and contacts because they reported to Wedtech through me, as well as others.

5. I had regular conversations with Mark Bragg about the pontoon contract in the fall of 1983. Mr. Bragg reported to me that he had spoken directly to Acting Assistant Secretary of the Navy Everett Pyatt on our behalf several times in this period. Mr. Bragg told me that he had spoken directly to Secretary of the Navy John Lehman on at least one occasion about Wedech and the pontoon contract. Mr. Bragg informed me that he had spoken on our behalf to James Sanders, the Administrator of the SBA, on at least one occasion and to Peter Neglia, Regional Administrator of the SBA in New York.

6. I had regular conversations with E. Robert Wallach about the pontoon contract in the fall of 1983.

(a) Mr. Wallach reported that he had spoken to "his friend" and kept "his friend" informed of Wedtech's efforts to obtain the pontoon contract. In the context of prior conversations with Mr. Wallach, I toook "his friend" to mean Edwin Meese III, then Counsellor to the President.

(b) In or about early December 1983, I learned that only a very small portion of hte pontoon contract -- the "non-motorized" portion -- would be set aside for the 8(a) program. At this time, I told Mr. Wallach that Wedtech would not accept just the non-motorized portion of the contract. Mr. Wallach told me that he would "see what he could do."

(c) Soon thereafter, Mr. Wallach reported to me that he had spoken by phone to "his friend," who was then at the airport, to advise him of the whole situation. Later, Mr. Wallach indicated to me that "his friend" had communicated with Mr. Weinberger. I did not ask Mr. Wallach for any more details about this conversation.

7. I had regular conversations with General Bernard Ehrlich and General Vito Castellano about the pontoon contract in the fall of 1983. I understood that General Ehrlich and General Castellano were in regular contact with Congressman Biaggi and Congressman Addabbo and, through Congressman Biaggi, with Senator D'Amato. General Castellano informed me, and General Ehrlich separately confirmed, taht Senator D'Amato and Congressman Addbbo had telephoned Navy Secretary Lehman on Wedtech's behalf. In addition, during the same time period and later in early 1984, I myself met directly with Congressman Biaggi, Congressman Addabbo, Senator D'Amato, and members of the staffs of Congressman Addabbo and Senator D'Amato, and I discussed Wedtech's efforts to get the pontoon contract with them.

8. I had regular conversations with Richard Ramirez about the pontoon contract in the fall of 1983. Mr. Ramirez was then the head of the Navy's Small and Disadvantaged Business Utilization Office, and I understood from him that he worked

directly with Assistant Secretary Pyatt on minority set-aside issues.

(a) In the early fall, Mr. Ramirez reported to me that Mr. Pyatt was adamantly opposed to any set-aside of the pontoon contract. He stated that Mr. Pyatt did not believe that any small business could handle such an important contract, or that it would be a good idea to start a new shipyard in the Bronx at a time when dozens of existing shipyards were idle around the country.

(b) At first, Mr. Ramirez reported to me that no portion of the pontoon contract would go to an 8(a) company. In or about early December 1983, however, Mr. Ramirez informed me that Mr. Pyatt would send a letter to the SBA agreeing to set aside the non-motorized portion of the contract. I learned of this letter through Mr. Ramirez before it was sent.

(c) Mr. Ramirez reported that there were meetings within the Navy after the December letter at which Wedtech and the pontoon contract were discussed. He reported that, to his astonishment, Mr. Pyatt appeared to have changed his mind and was now advocating the set-aside of the entire pontoon contract.

(d) In or about late December 1983 or early January 1984, Mr. Ramirez reported to me that the entire pontoon contract would be set aside for performance by an 8(a) company. I learned of this change in the Navy's position through Mr. Ramirez before the Navy officially informed the SBA of the set-aside.

9. I had regular conversations with Peter Neglia about the pontoon contract in the fall of 1983, when he was Regional Administrator of the SBA in New York. General Ehrlich was also present during most of my meetings with Mr. Neglia.

(a) Mr. Neglia reported to me on several occasions that he had spoken with the SBA's Philadelphia Regional Administrator, who had recently worked directly for James Sanders as the Administrator's Chief of Staff. Mr. Neglia stated that if Wedtech wanted the pontoon contract, we would have to share it with a Philadelphia company.

(b) Mr. Neglia also reported that he had spoken to Mr. Sanders on several occasions about Wedtech's efforts to get the pontoon contract. Mr. Neglia stated that Mr. Sanders would support the 8(a) set-aside all the way, as long as it was shared between Wedtech and a Philadelphia company.

10. I had regular conversations with Steven Denlinger in the fall of 1983 about Wedtech's efforts to obtain the pontoon contract. Mr. Denlinger reported that he had spoken regularly with H. Robert Saldivar, then in the SBA's Washington office, about Wedtech's efforts to obtain the pontoon contract. On at least two occasions in the fall of 1983 or the spring of 1984, and on several subsequent occasions, I met directly with Mr. Saldivar.

11. In my view, Wedtech was able to obtain the pontoon contract becaue of the pressure and influence we brought to bear through our consultants and contacts within and without the

federal government. Other companies attempted to influence the decision as well, but we caught them by surprise and "pulled the rug out from under them." By the time Mr. Pyatt agreed to set aside the contract under the 8(a) program in early January 1984, I understood from my contacts in both the Navy and the SBA that Wedtech would be the primary contractor on the project.

12. My fellow Wedtach officers and I initially agreed to share the pontoon contract with Medley Industries of Philadelphia. In January and February 1984, we met with representatives of Medley to negotiate the terms under which the two companies would share the conract. During these negotiations, I received a call from Mark Bragg, who told me that Medley would be unable to participate in the contract because of some kind of investigation into their conduct. I do not know, and I did not inquire how Mr. Bragg obtained this information. Shortly after this phone call, however, Medley was dropped from the contract.

13. In the winter of 1984-1985, I learned that Navy officials were reluctant to grant the 1985 option quantitites on the pontoon contract to Wedtech. I understood that some officials in the Navy and the SBA wanted to bring in a second source to manufacture pontoons and make Wedtech compete for the options. My fellow Wedtech officers and I again decided to utilize our consultants and contacts within and without the federal government to obtain a favorable decision.

14. At or about this time, John Mariotta and I met with

Mark Bragg at Mr. Bragg's request. Mr. Bragg said that it would be very difficult for Wedtech to get the options. He further stated that he wanted compensation for his efforts to help Wedtech. After negotiation between him and Mr. Mariotta and me, we agreed that he would get $400,000 from Wedtech if the options were awarded without price negotiations and $200,000 if they were awarded after price negotiations. Mr. Bragg subsequently informed me that he had spoken to both Mr. Pyatt and his Deputy, Wayne Arny, on behalf of Wedtech, as well as Mr. Lehman.

15. Shortly after this meeting, Mr. Wallach learned of our agreement with Mr. Bragg and demanded similar compensation. Mr. Mariotta and I agreed to pay Mr. Wallach $150,000 if Wedtech succeeded in obtaining the options. Wedtech in fact received the options on a sole-source basis.

16. The payments to Mr. Bragg were to be made in a series of installments, added to his usual fees over a period of years. The payments to Mr. Wallach were to be arranged at a later time. (I later learned from another Wedtech official that the payments for Mr. Wallach were made, in part, through his associates, W. Franklin Chin and R. Kent London.) Wedtech started to pay these installments after the options were awarded. However, the company encountered financial problems before the payments could be completed.

17. This affidavit is a summary of the facts and circumstances relating to Wedtech's acquisition of the pontoon

contract and options, and it does not purport to contain each and every detail of the numerous meetings, telephone calls and other contacts relating to that subject. I have made my best efforts to state the truth with respect to the specific areas about which I have been questioned, based upon my best recollection at this time.

MARIO E. MORENO

Sworn to before me this 28th
day of September, 1988

NOTARY PUBLIC

PHILIP G. VASSALLO
Notary Public, State of New York
No. [illegible]
Qualified in Ulster County
Commission Expires Feb. 28, 1989

J. DENNIS McQUAID
McQUAID, BEDFORD, BRAYTON,
CLAUSEN & GRELL
650 California Street, Suite 800
San Francisco, California 94108
(415) 392-7077

Attorney for Lee Engineering

In the Matter of the Award by the United States Navy of Contracts to Construct Pontoon Causeways (Sealift Program)	)	DECLARATION OF J. DENNIS McQUAID ATTORNEY FOR LEE ENGINEERING

At the request of Mr. Jack Mitchell, Senate Oversight Committee, in connection with the Committee's investigation of Wedtech Corporation, I declare that the following is a true and accurate statement of my recollection of the facts surrounding the attempt by Lee Engineering Company to receive awards of contracts in conjunction with the Pontoon Causeway portion of the Sealift Program.

I first met with Mr. Frank Lee, President of Lee Engineering Company (hereinafter LEECO) regarding this matter on August 30, 1983. At that meeting Frank Lee told me that he understood there was a possibility of the award of substantial amounts of work under the Sealift Program to qualified SBA 8(a) contractors. Frank indicated that he had heard of this possibility from Mr. Julien (Joe) Zuke, a business consultant in the Washington D.C. area. On September 1, 1983, after speaking to Frank Lee again, I telephoned Joe Zuke and was briefed on details of the program.

On September 2, 1983 I telephoned the Assistant to the Secretary of the Navy for Small and Disadvantaged Businesses, Mr. Richard Ramirez, and had a lengthy conversation during which I had confirmed most of the information relayed to me by Joe Zuke and received what I could describe now as the strongest encouragement for my client to proceed in attempting to identify the Pontoon Causeway Project under the purview of the 8(a) program. I of course communicated that encouragement to my client.

In order to acquire necessary additional capacity to handle the Pontoon Causeway Project, LEECO, through its President, Frank Lee, devoted the better part of a month negotiating for pier space with various companies in the San Francisco Bay Area. These efforts resulted in the successful negotiation of an agreement with SFW Corporation, a San Francisco small business ship repair company, for the sublease of adequate space at Pier 50 in San Francisco. This agreement was signed on September 30, 1983. SFW Corporation also agreed to be a first tier subcontractor and to provide necessary financial backing for project start-up.

During the time that LEECO was negotiating with SFW Corporation for adequate facilities to construct the causeway, Frank Lee and I were meeting with Irene Castillo, Regional Administrator of the Small Business Administration (Region 9) and Steve Bangs, an assistant in that office in order to obtain their support in identifying the Pontoon Causeway Project as one that could be set aside for a minority small business contractor under the 8(a) program. Pursuant to their direction, the appropriate paperwork was submitted and a request to set aside the project was forwarded through channels to the United States Navy.

On October 4, 1983, I telephoned Richard Ramirez in the Secretary of the Navy's Office and advised him of the progress we had made since our initial conversation on September 2nd. At that time we discussed a proposal by Joe Zuke that we look to doing that portion of the work scheduled for East Coast delivery in Puerto Rico as part of the Carribean Basin Initiative. Mr. Ramirez was enthusiastic about that proposal and strongly encouraged us to pursue it with representatives from Puerto Rico. I informed Mr. Ramirez that on October 3rd, Frank Lee and I had met with representatives of Puerto Rico Dry Dock and Fomento and SFW Corporation regarding performance of the East Coast portion of the Causeway Project.

Subsequently, Frank Lee and I planned a trip to Puerto Rico and then to Washington D.C. for meetings with the Puerto Rican companies, the Small Business Administration and the Navy. That trip occurred from October 10 to October 14, 1983 and resulted in an agreement between LEECO, Puerto Rico Dry Dock and Marine Terminals, Inc., and American Technologies Corporation, a Puerto Rican Construction Company. Said agreement provided for the creation of a new Puerto Rican corporation consisting of those three companies for fabrication and production of the Pontoon Causeway System. The agreement was witnessed by former Puerto Rican Governor, Luis A. Ferre'. Copies of the agreement were delivered to the Small Business Administration and I believe to Richard Ramirez on Friday, October 14, 1983 in Washington, D.C.

During the next few weeks, follow-up meetings and telephone calls were held with the SBA, Regional Administrator (Castillo), SFW Corporation, and the Puerto Rican concerns. On November 9th, I again went to Washington, D.C. with Frank Lee for meetings with representatives of the Navy and conferences with Rick Neil, who had been identified to me as the staff person in the White House directly involved with the Carribean Basin Initiative. We also met with a representative of Senator Wilson's Office. When we arrived for the meeting with Mr. Neil in the White House, coming out of the office just ahead of us was Mr. Ramirez from the Secretary of the Navy's Office. This afforded us a brief opportunity to discuss with him the status of our project. He again gave us strong encouragement to continue to seek an award under the 8(a) program.

This trip to Washington was followed up with appropriate letters to representatives of the Small Business Administration and the Navy. On November 17, 1983 my client and I met with the Regional Administrator of the SBA (Irene Castillo) and also with the Chief of Staff to Senator Pete Wilson. As a result of a number of phone calls, on November 21, 1983 I wrote a letter to James C. Sanders, Administrator, Small Business Administration. In that letter I thanked Mr. Sanders for taking time to speak to me on the telephone on November 10th regarding the potential 8(a) set aside of the

Pontoon Causeway Project. I then proceeded to respond to a number of concerns that had been raised regarding the ability of Lee Engineering to handle the proposal.

Follow-up continued with all parties. On December 6, 1983 we again met with Senator Pete Wilson's Chief of Staff and another meeting was held on December 22nd with Irene Castillo of the SBA.

In January, 1984 my client and I again went to Washington, D.C. where on January 6th we had two meetings, one with Mr. Sanders, Administrator of the SBA and another with Mr. Ramirez in the Secretary of the Navy's Small Business Office. On January 9, 1984, Mr. Wilfong and others in the Office of the Small Business Administration in Washington arranged a meeting of a committee of their staff with Frank Lee. He was asked to meet with them without either his business advisor Mr. Zuke or me, his attorney.

Upon our return to San Francisco, subsequent follow-up telephone calls with the Regional Office proved unproductive as that office clearly was not being kept informed of the decision making process with regard to this 8(a) requirement.

Eventually no work was awarded to Lee Engineering Company despite the fact that at every turn in the application process, we were encouraged to think that all or some substantial portion of the work would be awarded to Lee Engineering. That encouragement continued unabated until the meeting on January 9, 1984 when representatives of the SBA suggested to Frank Lee that he should consider a consulting contract to the project rather than have his company involved in the award of any work. This proposal was made to Frank Lee out of the hearing of his business consultant, Mr. Zuke and me. Frank Lee indicated a willingness to consider such a consulting contract but none ever resulted.

The subsequent award of the entire requirement to Wedtech was devastating to Lee Engineering Company and in my opinion led directly to its eventual filing under the Bankruptcy Laws. Frank Lee used virtually all of his equity in pursuing this major contract for his company. Based on what he was being told by Richard Ramirez in the Secretary of the Navy's Office and by various representatives of the Small Business Administration his decision to pursue this requirement so vigorously was a reasonable business decision and should have met with some degree of success.

If an investigation determines that Lee Engineering Company lost the opportunity to participate in the construction of the Pontoon Causeways because of unethical or illegal conduct on the part of responsible authorities in the SBA or the Navy, it would be appropriate to provide Frank Lee some amount of redress against the responsible individuals.

I hereby swear that the foregoing facts are true to the best of my information and belief and if called to testify I would so state.

Dated: September 25, 1987

J. DENNIS McQUAID

NAVY CAUSEWAY PONTOON FABRICATION PROGRAM

BASIC PROPOSAL

It is proposed that the Causeway Pontoon Fabrication Program be set aside for the 8(a) program in a manner that will create jobs and expand minority business in New York, Texas, California and Puerto Rico.

CAUSEWAY REQUIREMENT

- Floating Causeways for RDF
- Basically low-tech metal fabrication
- Also involves winching and propulsion technologies
- $300± million, multi-year program (probably through 1990)
- $20 to $30 million first year (FY'84)

BACKGROUND

The Navy rejected an earlier request for an 8(a) set-aside made by SBA Region IX. SBA is considering an appeal. The Navy has apparently indicated that SBA should appeal only if SBA can come forward with a qualified 8(a) candidate. Of the several 8(a) firms which have indicated an interest to date, none of them appear to have the manufacturing facility and financial capacity to handle a project to this magnitude.

PROPOSED 8(a) APPROACH

It is proposed that WEDTECH (formerly Welbilt) of the South Bronx be the lead 8(a) contractor for the Causeway program. WEDTECH would manufacture a portion of the Causeway program at their 200,000 sq.ft. waterside facility in the Bronx (for East Coast deliveries to Norfolk), and subcontract out as follows:

- Portion for Texas for the Border Initiative
- Portion for Puerto Rico for the P.R. Initiative
- Portion for California for West Coast deliveries

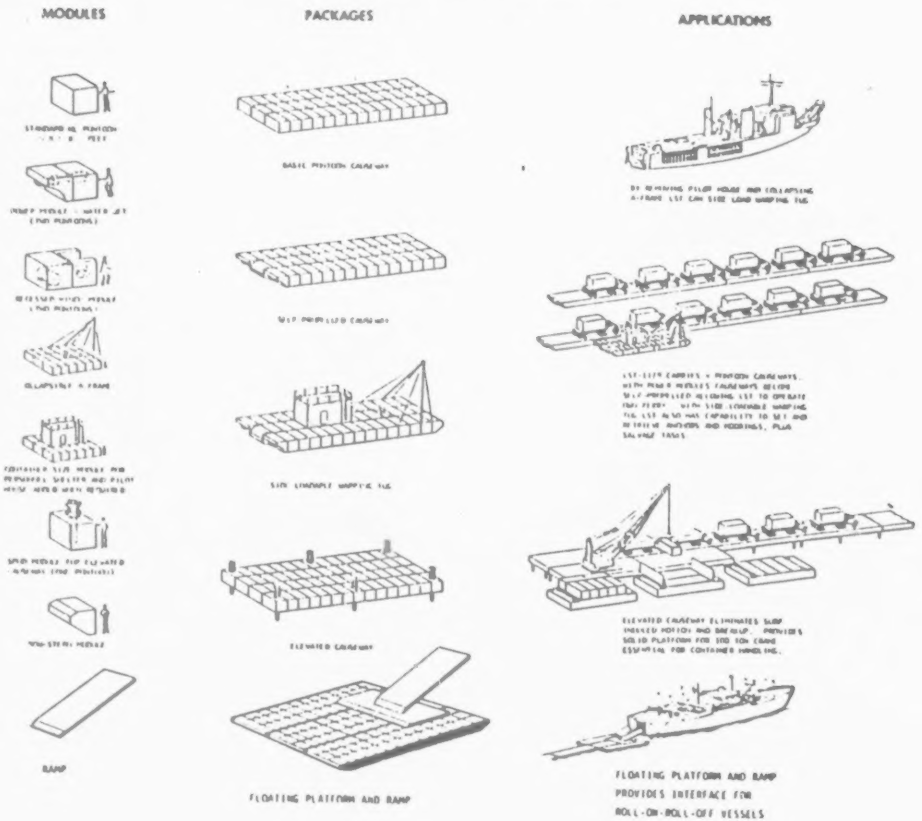
The portion for Texas would be awarded to one or two Hispanic 8(a) metal fabricators for production in Brownsville (or another suitable border location). Two firms under consideration are AMA of San Antonio and Martinez Custom Trailers of Albuquerque. The portion in Puerto Rico would be manufactured in San Juan and/or Ponce in a program to be worked out with Fomento. The portion in California could be manufactured by San Francisco Welding, a small business in that city. The inclusion of a small business could garner the support of the small business lobby. In the alternative, a strong 8(a) metal fabricator could be located in California for participation in the program. Naturally, the mix of 8(a) subcontractors in the various geographic areas is fully open to discussion.

RATIONALE

WEDTECH is a strong, high-tech manufacturer with a proven track record in defense requirements. The firm had $20 million in precision metal fabrication sales in 1983. WEDTECH is deeply involved in engine (propulsion) technology; the firm is manufacturing 13,000 Military Standard Engines for the Army, and also manufacturers one of the worlds two production wankle engines. WEDTECH recently went public and is financially strong. WEDTECH can handle a project of the scale of Causeway from the manufacturing and financial points of view. WEDTECH already has a 200,000 sq.ft. waterfront facility in the South Bronx which can be devoted completely to this project. WEDTECH is near graduation and needs a multi-year project.

The project would have a strong Hispanic focus in three key states (New York, Texas, and California) and Puerto Rico. The project would no doubt enjoy strong political support from key political figures in those states such as Senator D'Amato, Senator Tower, Governor Deukmejian, etc. WEDTECH is probably the only 8(a) manufacturing firm strong enough to orchestrate the project for the objectives outlined above, while ensuring that the Navy gets a technically competent product, on time, at a fair market price.

AN AMPHIBIOUS LOGISTICS SYSTEM COMPONENT
THE PONTOON CAUSEWAY SYSTEM


MODULES
PACKAGES
APPLICATIONS
STANDARD NL PONTOON
POWER MODULE - WATER JET (TWO PONTOONS)
COLLAPSIBLE A-FRAME
CONTAINER SIZE MODULE FOR PERSONNEL SHELTER AND PILOT HOUSE ADDED WHEN REQUIRED
SPUD MODULE FOR ELEVATED CAUSEWAY (TWO PONTOONS)
RAMP
BASIC PONTOON CAUSEWAY
SELF-PROPELLED CAUSEWAY
SIDE LOADABLE WARPING TUG
ELEVATED CAUSEWAY
FLOATING PLATFORM AND RAMP
BY REMOVING PILOT HOUSE AND COLLAPSING A-FRAME LST CAN SIDE LOAD WARPING TUG.
LST-1179 CARRIES 2 PONTOON CAUSEWAYS. WITH POWER MODULES CAUSEWAYS BECOME SELF-PROPELLED ALLOWING LST TO OPERATE THE FERRY. WITH SIDE LOADABLE WARPING TUG LST ALSO HAS CAPABILITY TO SET AND RETRIEVE ANCHORS AND MOORINGS, PLUS SALVAGE TASKS.
ELEVATED CAUSEWAY ELIMINATES SURF INDUCED MOTION AND BREAKUP. PROVIDES SOLID PLATFORM FOR 100 TON CRANE ESSENTIAL FOR CONTAINER HANDLING.
FLOATING PLATFORM AND RAMP PROVIDES INTERFACE FOR ROLL-ON-ROLL-OFF VESSELS

CAUSEWAY SECTION PROCUREMENT PLANS

	84	85	86	87	88	89	TOT
CSNP	28	79	54	39	19	30	249+(68)
CSP	19	35	56	60	20	16	206
SLWT	10	17	16	26	6	12	87
ELCAS		1	1		1	1	4

CAUSEWAY SECTION PROCUREMENT DOLLARS ($MIL)

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CSNP  PROC. TOT $ 39.63
CSP   PROC. TOT $208.06
SLWT  PROC. TOT $ 95.70
ELCAS PROC  TOT $ 52.00
                 ------
            TOT $395.39
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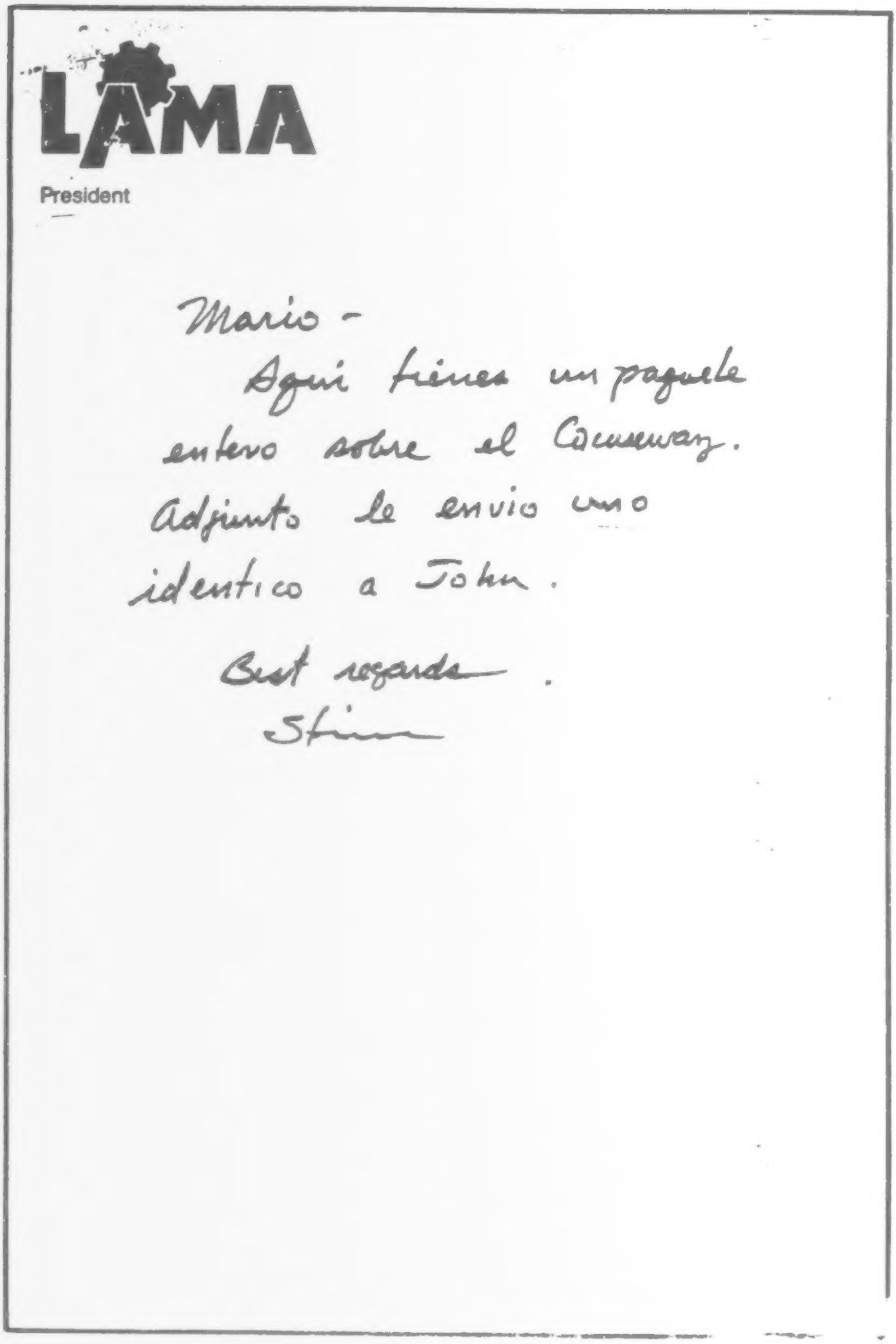

LAMA
President

Mario -

Aqui tienes un paquete entero sobre el Causeway. Adjunto le envio uno identico a John.

Best regards.

Stim

[illegible] working [illegible] that [illegible] issue with SBA + Navy with Steve

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JOHN GLENN, OHIO, CHAIRMAN

LAWTON CHILES, FLORIDA
SAM NUNN, GEORGIA
CARL LEVIN, MICHIGAN
JIM SASSER, TENNESSEE
DAVID PRYOR, ARKANSAS
GEORGE J. MITCHELL, MAINE
JEFF BINGAMAN, NEW MEXICO

WILLIAM V. ROTH, Jr., DELAWARE
TED STEVENS, ALASKA
WILLIAM S. COHEN, MAINE
WARREN B. RUDMAN, NEW HAMPSHIRE
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LINDA J. GUSTITUS, STAFF DIRECTOR AND CHIEF COUNSEL
MARY BERRY GERWIN, MINORITY STAFF DIRECTOR AND CHIEF COUNSEL

United States Senate
COMMITTEE ON
GOVERNMENTAL AFFAIRS
SUBCOMMITTEE ON
OVERSIGHT OF GOVERNMENT MANAGEMENT
WASHINGTON, DC 20510-6250

Questions for Caspar Weinberger

1. Do you recall, or do your records reflect, that you or your Deputy ever discussed (a) Wedtech Corporation, formerly known as the Welbilt Electronic Die Corporation; (b) a 1982 Army contract for Military Standard Engines; or (c) a 1984 navy contract for Pontoon Causeways with any of the following individuals: Edwin Meese III, Lyn Nofziger, Jim Jenkins, Mark Bragg, E. Robert Wallach, former Navy Secretary John Lehman, Assistant Navy Secretary Everett Pyatt, Army Secretary John Marsh, or Assistant Army Secretary J.R. Sculley?

2. If so, please provide the approximate date(s), substance, and participants in such conversation(s).

THE SECRETARY OF DEFENSE
WASHINGTON, THE DISTRICT OF COLUMBIA

October 2, 1987

STATEMENT IN RESPONSE TO SENATE INQUIRY RE WEDTECH CONTRACT AWARDS

In response to the questions set forth in the attachment to Ms. Linda Gustitus's memo of September 24, 1987, I would make the following statement:

To the best of my knowledge, I have never discussed (a) Wedtech Corporation, formerly known as the Welbilt Electronic Die Corporation; (b) a 1982 Army contract for Military Standard Engines; or (c) a 1984 navy contract for Pontoon Causeways with any of the following individuals (or indeed with anyone else):

Edwin Meese III, Lyn Nofziger, Jim Jenkins, Mark Bragg, E. Robert Wallach, former Navy Secretary John Lehman, Assistant Navy Secretary Everett Pyatt, Army Secretary Marsh, or Assistant Army Secretary J. R. Sculley.

To expand upon that, I have no knowledge of anything connected with this company or with the contracts. It has long been my policy not to discuss individual contracts with anyone, and I particularly do not recall discussing anything of this nature with any of the people named above. Obviously, as time has gone by, I have had contact with Mr. Meese over a variety of other matters in his various positions; likewise I have certainly dealt with former Secretary Lehman on many matters; and still deal with Secretary Marsh on an almost daily basis. However, none of my contacts with them has concerned the matters in question. I have spoken with Lyn Nofziger a few times but, as far as I can recall, only on political matters, and nothing related to contracts, and perhaps once or twice to Jim Jenkins, but again, not contract matters. The others I either do not know, or have had no occasion to speak with them at all.

I trust this statement will suit the needs of the inquiry.

Caspar W Weinberger

CASPAR W. WEINBERGER
Secretary of Defense

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United States Senate
COMMITTEE ON
GOVERNMENTAL AFFAIRS
SUBCOMMITTEE ON
OVERSIGHT OF GOVERNMENT MANAGEMENT
WASHINGTON, DC 20510-6250

October 7, 1987

The Honorable James H. Webb, Jr.
Secretary of the Navy
The Pentagon
Washington, D.C. 20350

Dear Mr. Secretary:

The Senate Subcommittee on Oversight of Government Management, which I chair, is conducting a review of federal procurement under the Section 8(a) minority set-aside program administered by the Small Business Administration, pursuant to our jurisdiction over government-wide procurement, management, and ethics issues. As a part of this review, the Subcommittee is investigating the award to Wedtech Corporation of a 1984 Navy contract for pontoon causeways.

On November 14, 1986, I sent a letter to Admiral William H. Rowden, Commander of the Naval Sea Systems Command, requesting copies of all documents in the Navy's possession relating to the pontoon contract. By letter dated November 21, 1986, I was informed that this request had been referred to the Naval Facilities Engineering Command (NAVFAC) for response. Additional document requests were made to NAVFAC on January 27, 1987, and March 5, 1987, and to the Assistant Secretary for Shipbuilding and Logistics on March 5, 1987, and April 7, 1987.

The Subcommittee received documents from the Navy in response to these requests. Subsequently, in the course of a September 30, 1987 hearing on the pontoon contract, the Subcommittee learned that additional Navy documents might be in the possession of the Office of Naval Operations.

Because several different Naval commands appear to have played a role relative to the pontoon contract, I ask your assistance in ensuring that the Subcommittee has, in fact, received all relevant documentation from the Navy. This

The Honorable James H. Webb, Jr.
October 7, 1987
Page Two

request is intended to cover not only the Assistant Secretary's Office, the Small and Disadvantaged Business Office, and NAVFAC -- from which the Subcommittee has already received documents -- but also the Office of Naval Operations, the Naval Sea Systems Command, and any other Navy command that may have played a role relative to the pontoon contract.

Your assistance in this matter is greatly appreciated.

Sincerely,

Carl Levin

Carl Levin
Chairman

CL:pkl

DEPARTMENT OF THE NAVY
OFFICE OF THE ASSISTANT SECRETARY
(SHIPBUILDING AND LOGISTICS)
WASHINGTON DC 20360-5000

1987 OCT 29 AM 10: 14

OCT 27 1987

The Honorable Carl Levin
Chairman, Subcommittee on
Oversight of Government Management
Committee on Government Affairs
United States Senate
Washington, DC 20510

Dear Mr. Chairman:

We have completed a thorough review of all documents related to the Wedtech contract and, with the exception of the point paper referred to by Vice Admiral Hughes at your hearing on September 30, we believe that we have provided the Subcommittee all the relevant information requested: I am enclosing a copy of the point paper for your Subcommittee's convenience.

We will continue to give our fullest cooperation regarding the Wedtech contract. If you desire, Captain Cohen, my Special Assistant (Legal), will meet with your staff to assist in determining if the Subcommittee's request has been fulfilled. He can be reached at (202) 692-3233.

I trust the enclosed information is useful.

Sincerely,

Everett Pyatt

EVERETT PYATT
ASSISTANT SECRETARY OF THE NAVY
(SHIPBUILDING AND LOGISTICS)

CDR T.G. Troy, Jr.
OP-424, X54376
05 January 1984

SUBJECT: FY84 Powered Causeway Procurement

ISSUE: At a meeting 04JAN at ASN(S&L), it was indicated that a decision has been made to offer the FY84 Powered Causeway (PCS) procurement to the Small Business Administration as an 8A (minority) award. Decision was reportedly influenced by political pressure brought to bear on ASN. This increases the risk that the units will not be delivered in time to meet MPS#1 loadout and deployment.

BACKGROUND: ASN(S&L) had previously decided to award only non-powered units in FY84 to small business with PCS going via an IFB due to the extremely compressed delivery timetable imposed on NAVFAC by the new delivery, loadout, and deployment dates for MPS#1. (Procurement numbers and costs are attached). PCS production requires an existing plant to fabricate and assemble, up front capital to order long lead time articles such as the special diesel engines and water pumps, a certain level of technical expertise to align the propulsion system, and the ability to provide the associated ILS package/software.

CONCERNS: --With the congressional funding cut in that line, we have just enough money for the 15 MPS units only if the unit cost is very close to the government estimate which was based on a competitive procurement. Our experience has been that 8A costs more.
--The time saved by having SBA award 8A as opposed to going IFB is lost in the production time associated with a small production facility. Our experience has been that 8A takes longer to deliver.
--An SBA award is faster only if NAVMAT compresses the business certification and pre-certification process. This process normally takes three or more months and will require pressure from OPNAV and ASN to compress.
--A delay in delivery will either delay deployment of MPS#1 or result in sailing without adequate lighterage and shipping the PCS later. Total late shipment costs range from $475K to $600K.
--While there is no certainty that an IFB will guarantee on time delivery, there is also no mechanism in the SBA for them to guarantee on time 8A delivery.
--If FY85 also goes SBA, the problem is identical.

CONCLUSION: There is now a good chance that MPS#1 (and possibly MPS#2) could deploy late or with inadquate lighterage.

Encl: (1)

PLANNED PROCUREMENTS

TYPE UNIT	84	85	86	87	88	89	90	TOTAL
ARMY FLTG C/W	0	36	18	18	0	0	0	72
ARMY RO/RO	0	24	12	0	0	0	0	36
ARMY ELCAS	0	0	25	25	0	0	0	50
CSNP	28	79	83	46	39	32	32	339
ELCAS	0	40	40	40	40	40	0	200
RO/RO	(ALL RO/RO SECTIONS ARE INCLUDED IN CSNP LINE ABOVE)							
							TOTAL	697

PCS/SLWT	15	52	68	84	24	22	28	293
							TOTAL	293

VALUE OF ARMY PURCHASE OF 158 CAUSEWAY SECTIONS AND ASSOCIATED EQUIPMENT INCLUDING ELEVATING EQUIPMENT FOR ELCAS IS ABOUT $45M AS FOLLOWS: FY85 - $9.6M, FY86 - $15.3M, FY87 - $13.1M.

VALUE OF NAVY PURCHASE OF 539 NON-POWERED CAUSEWAY SECTIONS AND ASSOCIATED EQUIPMENT IS $120M AS FOLLOWS: FY84-$4.2M, FY85-$24.3M, FY86-$25.5M, FY87-$20.4M, FY88-$20.2M, FY89-$19.5M, FY90-$4.8M.

VALUE OF NAVY PURCHASE OF 293 POWERED UNITS IS $389M AS FOLLOWS: FY84-$27.3M, FY85-$67.6M, FY86-$88.4M, FY87-$109.2M, FY88-$31.2M, FY89-$28.6M, FY90-$36.4M.

PAST PROCUREMENTS

TYPE UNIT	73-81	82	83	TOTAL
CSNP*	153	47	27	220
ELCAS	0	0	0	0
RO/RO	0	0	0	0
ARMY FLTNG C/W	0	0	0	0
ARMY ELCAS	0	0	0	0
ARMY RO/RO	0	0	0	0
CSP (CAUSEWAY SECTION, POWERED)	0	7	0	7

CSNP = CAUSEWAY SECTION, NON-POWERED
ELCAS = ELEVATED CAUSEWAY
RO/RO = ROLL ON/ROLL OFF DISCHARGE FACILITY
FLTNG C/W = FLOATING CAUSEWAY (AS OPPOSED TO AN ELEVATED ONE)

* ALL PAST NON-POWERED PROCUREMENTS WERE SMALL BUSINESS

Post-Hearing Questions for Everett Pyatt

1. You testified that 8(a) goals are set for the Navy in terms of dollar volume every year and that these goals created a significant pressure to set-aside the pontoon contract.

Please state the Navy's 8(a) goal for each year from 1980 to the present. What dollar volume of 8(a) contracts did the Navy actually achieve in each of these years?

2. You testified that former SBA Administrator, Jim Sanders, spoke with you two or three times a month and personally lobbied you to set aside several specific 8(a) contracts other than the pontoon contract.

Please provide the Subcommittee with a list of the contracts that Mr. Sanders urged you to set aside under the 8(a) program.

Please review your personal calendar, diary, telephone logs, meeting logs and any other records that might evidence phone calls or meetings between yourself and Mr. Sanders between January 1983 and December 1984. Please provide the Subcommittee with a copy of any pages from these records that evidence such meetings or phone calls.

3. You testified that you were not overly concerned with Wedtech's ability to meet the Navy's delivery schedule because other elements of the sealift program were also slipping.

Please list the other significant elements of the sealift program that were delayed and indicate the period of the delay.

4. You testified that there are numerous instances in which the Navy agrees to set aside a contract under the 8(a) program without knowing who the 8(a) contractor will be.

Please provide the Subcommittee with a list of contracts that the Navy has agreed to set aside without being notified who the contractor would be. Please state the dollar value of each contract and the name of the contractor to whom the contract was eventually awarded.

5. You testified that you met with Lyn Nofziger and Mark Bragg about two or three times a year, but you were not sure when these meetings took place or when they started.

Please review your personal calendar, diary, telephone logs, meeting logs and any other records that might evidence phone calls or meetings between yourself and Mr. Nofziger and/or Mr. Bragg between January 1983 and the present. Please provide the Subcommittee with a copy of any pages from these records that evidence such meetings or phone calls.

6. You testified that before you agreed to lunch with Mssrs. Nofizger and Bragg you asked Mr. Bragg -- and not Mr. Nofziger -- whether he represented any defense contractors and Mr. Bragg told you he did not. Where and when did this conversation take place? Was anyone else present? Was Mr. Bragg's statement made in writing? If so, please provide a copy of the statement to the Subcommittee.

DEPARTMENT OF THE NAVY
OFFICE OF THE ASSISTANT SECRETARY
(SHIPBUILDING AND LOGISTICS)
WASHINGTON DC 20360-5000

NOV 16 1987

Honorable Carl Levin
Chairman, Subcommittee on Oversight of
 Government Management
Committee on Governmental Affairs
United States Senate
Washington, DC 20510-6250

Dear Mr. Chairman:

This responds to your letter of October 26, 1987, requesting answers to your follow-up questions to my testimony before your subcommittee on September 30, 1987. The answers below are numerically keyed to your questions.

1. While the Navy has not received specific goals for the 8(a) program alone, it has been made clear that all Services were expected to increase 8(a) awards. We have received continually increasing goals for total awards to Small Disadvantaged Business (SDB) firms of which 8(a) awards have historically been the overwhelming vehicle in meeting those goals. In fiscal years 1980-1985, this goal encompassed 8(a) awards, awards which SDB firms won as a result of competition, and subcontract awards to SDB firms. In fiscal year 1986 the SDB goal was established as a percentage of total direct contract actions with a separate dollar goal assigned to subcontract awards. The 8(a) program was the only viable way to meet the direct contract award goal. Tab A highlights the Navy's performance against the SDB goal as well as our specific performance on the 8(a) program.

2. With respect to my contact with Mr. Sanders, I do not believe that my testimony indicates that he "lobbied" me to set aside several specific 8(a) contracts, but rather that we spoke frequently on the general topic of Navy setting aside work for the 8(a) program. I cannot recall any specific contracts that he requested me to set aside other than a discussion that we had about an electronics firm, the name of which I still cannot remember. To the best of my recollection, prior to the set-aside of the pontoon contract, Mr. Sanders never mentioned Wedtech specifically. At Tab B is a page from my secretary's Appointment Book showing a meeting with Mr. Sanders on December 15, 1983, and a page from my Meeting/Call Log indicating a phone call from Mr. Sanders received by my secretary on the 17th of September 1984. Although not reflected in my secretary's Appointment Book, I believe that I had another meeting at SBA with Mr. Sanders concerning a set-aside for the pontoon contract.

3. It was my understanding in late 1983 and early 1984, and it is still my impression, that other pieces of the MPS program were slipping and that the delivery delay of the pontoons did not

assume critical importance. In fact, I remember VADM Hughes himself remarked to me on a number of occasions that Marine Corps loading was behind schedule. Nonetheless, I have asked the Deputy Chief of Naval Operations (Logistics) to do a review of the other elements of the MPS program vis-a-vis schedule. When that review is completed, I will forward the results.

4. Set-asides under the 8(a) program are often accomplished without regard to the identity of the particular contractor. What is important here, however, is not the decision to set-aside the work to SBA, but rather the procuring agency's decision prior to award of the contract that the contractor is capable of doing the work. At Tab C is correspondence relating to the award of a number of contracts under the 8(a) program wherein the identity of the specific 8(a) contractor was not known by the procuring Department of Navy office at the time of the offering.

5. At Tab D are copies of pages from my secretary's 1983 and 1984 Appointment Books and post-confirmation (August 7, 1984 to Present) Meeting/Telephone Logs which seems to indicate meetings or telephone calls with Mr. Bragg or Mr. Nofziger. You will notice that my secretary's Appointment Book indicates that I had meetings scheduled with Mr. Nofziger on September 7 and September 23, 1983, and breakfast scheduled with him on October 13, 1983. The meeting on September 7 to the best of my recollection involved a ship operating contract unrelated to Wedtech. The meeting on September 23, with Secretary Lehman and a Waterman representative, I believe dealt with a maritime union problem, also unrelated to Wedtech. As far as I can recall, the breakfast meeting with Mr. Nofziger never occurred. If it did, I certainly do not remember it or any other discussions occurring during breakfast. Regrettably, my secretary's Appointment Books for 1983 and 1984 were earlier overlooked, and thus I was not able previously to refresh my recollection on my dealings with Mr. Bragg or Mr. Nofziger prior to my being sworn as assistant secretary in August 1984.

6. The date of the luncheon with Mr. Nofziger and Mr. Bragg that I referred to in my testimony occurred on May 15, 1986, at dining facilities in Mr. Nofziger's office complex. As far as I can remember, two representatives of a maritime labor union were present, one of them Mr. DeFreeze. Mr. Bragg's statement was not reduced to writing, and it would not have been my practice or inclination to request his statement to be in writing.

Everett Pyatt

EVERETT PYATT
ASSISTANT SECRETARY OF THE NAVY
(SHIPBUILDING AND LOGISTICS)

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United States Senate
COMMITTEE ON
GOVERNMENTAL AFFAIRS
SUBCOMMITTEE ON
OVERSIGHT OF GOVERNMENT MANAGEMENT
WASHINGTON, DC 20510-6250

October 26, 1987

Mr. Wayne Arny
Associate Director
for International Affairs
Office of Management and Budget
Room 262, Old Executive Office Building
Washington, D.C. 20503

Dear Mr. Arny:

Thank you for testifying before the Senate Subcommittee on Oversight of Government Management at its hearings on federal procurement decisions relative to Wedtech Corporation. As soon as the printed hearing record is available, I will see that a copy is sent to you.

The Subcommittee has several follow-up questions relating to your testimony. First, in the course of your testimony, you were asked to provide certain information for the record. The information requested included examples of instances in which you had (a) given advice to the Washington representative of a contractor as to whether or not his client should send a letter to the Navy (Tr. 98-99); and (b) gone to a Navy official outside the normal chain of command for an independent review of a particular contractor's performance (Tr. 132-33).

Second, you testified that you spoke to Mark Bragg about the pontoon contract and options at least five times, but you were unable to state precisely how many times. The Subcommittee requests that you review your personal calendar, diary, telephone logs, meeting logs and any other records that might evidence phone calls or meetings between yourself and Mr. Bragg during your tenure as Principal Deputy Assistant Secretary of the Navy. Please provide the Subcommittee with a copy of any pages from these records that evidence such meetings or phone calls.

Thank you again for your cooperation and assistance in this matter. Please provide the requested information by November 12, 1987. If you have any questions, please contact Peter Levine of the Subcommittee staff at 224-3682.

Sincerely,

Carl Levin
Carl Levin
Chairman

CL:pkl

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

November 13, 1987

Honorable Carl Levin
Chairman
Committee on Governmental Affairs
Subcommittee on Oversight of
  Government Management
Washington, D. C. 20510-6250

Dear Mr. Chairman:

This is in response to your letter of October 26, 1987 in which you asked several follow-up questions to my testimony of September 30, 1987. Specifically, you again inquired regarding instances in which I might have given advice to a contractor and gone to a third party to request an independent review of a program under my cognizance.

To recapitulate my testimony, it was not uncommon for contractors and/or their representatives to contact either me or my senior staff concerning difficulties they had encountered, or thought they might encounter, with regard to particular contracts. Such inquiries ran the full gamut, from complaints to solicitation of advice as to the manner in which a particular problem might be resolved. Many contractors felt the Government was their primary customer, and that if the Government employees, either military or civilian, became upset with the contractors, even when the contractor had a legitimate complaint, they could slow down the government's efforts to the point where the contractor would suffer irreparable harm with no recourse.

Among my responsibilities was contract oversight -- to ensure that contract execution proceeded as smoothly as possible given the circumstances. To adopt a universally adversarial relationship with contractors would have been a disservice to the public. If I, or my staff, had been unwilling to field such inquires, problems would have been exacerbated and, in many instances, an adequate resolution would not have been achieved.

In the instance of Mr. Bragg's inquiry regarding the transmission of the letter by WEDTECH, I was aware of the general dispute between WEDTECH and the Navy, but I was uncertain as to the extent of the difficulties with the pumps and the effects of further schedule slippage. In addition, I wanted to ensure that the letter would not cause some harm to the contractor or the Government that I could not anticipate. Consequently, I referred the issue to Captain Piersall, who had just completed an independent review of the causeway project. Based on his recommendation, which I found reasonable, I suggested that the letter be forwarded -- to allow an airing of the difficulties. If the letter had not been sent, the substantive difficulties with the contract might only have been compounded.

Although I cannot remember another instance when I might have given advice to a contractor on whether or not he should send, specifically, a letter to the Navy, I can recall similar instances where I was contacted by a contractor regarding difficulties the contractor was encountering with the Navy and, as a result, had the issue investigated. Three examples are:

-- The Navy was withholding progress payments from Todd Pacific Shipyards until an issue involving allegedly improper treatment of worker's compensation allowances was resolved. A Todd representative contacted me and I asked for a separate staff review. After reviewing the issue, I concluded, with others, that the Navy personnel involved were proceeding properly.

-- A contractor had designed and produced an infra-red fire detector for use in smoke-filled, dark rooms. The contractor complained that the Navy project personnel refused to consider an "off-the-shelf" procurement and wanted to write a set of military specifications that the contractor felt were unnecessary and would increase the cost dramatically. I asked that the Competition and Specification Advocates review the project. They concluded that the contractor was correct. The article was competed as an "off-the-shelf" procurement.

-- I was contacted by a representative of a small ship yard in the State of Washington concerning the impending institution of suspension and debarment proceedings by the Justice Department for the company's pollution from the operation of their drydock. After investigating the matter, I refused to intercede on the contractor's behalf.

In response to your inquiry regarding my decision to request an independent review of the WEDTECH contract, I must again emphasize that at the time I first became involved with the WEDTECH contract, I had been in my position only 24 days, and I was unfamiliar with 8(a) contract oversight. In view of the conflicting allegations, and relying on my previous experience as a Staff member for the Senate Armed Services Committee, I felt the best course of action was to ask for an independent assessment of the WEDTECH contract. To do otherwise would have been to put myself in a position of deciding, without independent advice, an intra-governmental conflict in which both sides had made legitimate points and seemed to have legitimate, if opposite, concerns -- under circumstances where I had no knowledge or expertise. Additionally, as I later came to recognize, independent assessments on issues of controversy were not uncommon on the S&L staff.

You have also asked for other examples of when I might have requested independent reviews. Examples are:

-- In San Diego, California, the Navy had turned over a portion of a WWII Marine Base where a previously unknown cache of unexploded ordnance was discovered. The U.S. Army was theoretically responsible, and it was recommended through the Navy chain of command to advocate within DOD that responsibility should remain with the Army. I asked the Navy explosive teams and the Naval Reserve to examine the issue for other possible solutions. The issue was resolved by using the Reserve Explosive Ordnance Disposal Teams, during their annual active duty, to sweep the area and educate the civilian community to the dangers.

-- I worked with the land withdrawals at Fallon, Nevada. In each of the three major land withdrawals we were required to do an Environmental Impact Statement. These were all done by outside civilian firms and were then reviewed by both NAVFAC and OGC. In the case of a buyout of private homesteads outside of Fallon, we were required to have two independent assessments of each piece of property prior to making the Government's offer. When many of the landowners were dissatisfied with the Navy's offer, I offered, with NAVFAC and OGC concurrence, to have the Navy pay for a third assessment.

-- Very early in my tenure, the owner of a small manufacturing concern came into my office seeking help in a lawsuit brought against him by his former employer, with whom he now competed. They both manufactured spare parts, emphasizing the production of parts that were no longer produced by their original makers and yet were still required for some of the Navy's older machinery. He contended that the suit would put him out of business and deprive the Navy of a competitive base for spare parts. I sought the advice of the Navy's lawyers, and confirmed his allegations with the Naval Sea Systems Command engineers. With the help of the lawyers we wrote a letter for him that protected the Government's interests, but was sufficient to insure that his business survived until the Systems Command could finish a critical review that he felt (and my staff agreed) would prove his case.

Lastly, you requested that I review my personal files to find evidence of phone calls or meetings between myself and Mr. Mark Bragg. The only records that I have are my office calendars for the years 1984-1986. I have been advised that there were no records maintained with regard to telephone calls. As I stated during the hearing, I did speak on a number of occasions (I cannot give a specific number -- although it was not an inordinate number), both in person and by telephone, to Mr. Bragg. In addition, I had him to lunch once in the ASN(S&L) mess. A thorough search of my calendar, however, reflects no meetings with Mr. Bragg and, as previously stated, no record of my telephone calls was maintained during my tenure on the S&L staff.

I hope that I have addressed your remaining questions.

Sincerely,

L. Wayne Arny, III
Associate Director
National Security and
International Affairs